Bath & North East Somerset Council

Improving People's Lives

Avon Pension Fund Committee Investment Panel

Date: Friday, 20th November, 2020
Time: 2.00 pm
Venue: Virtual Meeting - Zoom - Public Access via YouTube https://www.youtube.com/bathnescouncil

To: All Members of the Avon Pension Fund Committee Investment Panel

Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Councillor Bruce Shearn, John Finch, Pauline Gordon and Shirley Marsh-Hughes

Chief Executive and other appropriate officers
Press and Public

Mark Durnford
Democratic Services
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NOTES:

1. Inspection of Papers: Papers are available for inspection as follows:
Council's website: https://democracy.bathnes.gov.uk/ieDocHome.aspx?bcr=1

2. Details of decisions taken at this meeting can be found in the minutes which will be circulated with the agenda for the next meeting. In the meantime, details can be obtained by contacting as above.

3. Broadcasting of Meetings
The Council will broadcast the images and sounds live via the internet
https://www.youtube.com/bathnescouncil

The Council may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

4. Public Speaking at Meetings
The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group.

Advance notice is required not less than two working days before the meeting.

Further details of the scheme can be found at:
https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=12942

5. Supplementary information for meetings
Additional information and Protocols and procedures relating to meetings
https://democracy.bathnes.gov.uk/ecCatDisplay.aspx?sch=doc&cat=13505

Avon Pension Fund Committee Investment Panel - Friday, 20th November, 2020

at 2.00 pm in the Virtual Meeting - Zoom - Public Access via YouTube https://www.youtube.com/bathnescouncil

A G E N D A

1. WELCOME & INTRODUCTIONS

2. DECLARATIONS OF INTEREST

At this point in the meeting declarations of interest are received from Members in any of the agenda items under consideration at the meeting. Members are asked to complete the green interest forms circulated to groups in their pre-meetings (which will be announced at the Council Meeting) to indicate:

(a) The agenda item number in which they have an interest to declare.

(b) The nature of their interest.

(c) Whether their interest is a **disclosable pecuniary interest** or an **other interest**, (as defined in Part 2, A and B of the Code of Conduct and Rules for Registration of Interests)

Any Member who needs to clarify any matters relating to the declaration of interests is recommended to seek advice from the Council's Monitoring Officer or a member of his staff before the meeting to expedite dealing with the item during the meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive any declarations from Members of the Committee and Officers of personal/prejudicial interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interest declared.

4. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

5. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

6. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions or questions from Councillors and, where appropriate, co-opted and added members.

7. MINUTES - 11TH SEPTEMBER 2020 (Pages 7 - 22)

8. DYNAMIC EQUITY PROTECTION: STRATEGY DESIGN (Pages 23 - 58)

This paper considers the strategy design of a dynamic protection strategy, the performance of the strategy under various market scenarios as well as finer implementation points.

9. BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING (Pages 59 - 70)

This report outlines the progress on pooling of assets with specific reference to the investment activities.

10. REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 SEPTEMBER 2020 (Pages 71 - 214)

This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments.

11. TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (Pages 215 - 228)

The Task Force for Climate-related Financial Disclosures (TCFD) framework is considered best practice and is widely adoptable and applicable to organisations across all sectors and countries.

12. FORWARD AGENDA (Pages 229 - 232)

This report sets out the forward agenda for the Panel to end 1Q21. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

The Committee Administrator for this meeting is Mark Durnford who can be contacted on 01225 394458.

BATH AND NORTH EAST SOMERSET

MINUTES OF AVON PENSION FUND COMMITTEE INVESTMENT PANEL MEETING

Friday, 11th September, 2020

Present:- Councillor Shaun Stephenson-McGall (Chair), Councillor Chris Dando, Councillor Bruce Shearn, John Finch, Pauline Gordon and Shirley Marsh-Hughes

Advisors: Steve Turner (Mercer), Nick Page (Mercer) and Ross Palmer (Mercer)

External Managers: Christian Porter (Brunel), Richard Fanshawe (Brunel) and Chris Crozier (Brunel)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Group Manager for Funding, Investments & Risk) and Nathan Rollinson (Investments Manager)

10 WELCOME & INTRODUCTIONS

The Chair welcomed everyone to the meeting.

11 DECLARATIONS OF INTEREST

There were none.

12 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

There were none.

13 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

14 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

15 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

16 MINUTES - 5TH AUGUST 2020

The minutes of the meeting on 5th August 2020 were confirmed as a correct record.

17 UK PROPERTY PORTFOLIO

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED,** in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

18 RISK MANAGEMENT ANNUAL REVIEW

The Investments Manager introduced this report to the Panel. He explained that the Risk Management Framework encompasses three dedicated risk management strategies and a passive equity fund for collateral management purposes. He stated that the Liability Driven Investment (LDI) Strategy and the Buy-and-Maintain Corporate Bond (CB) Portfolio are designed to hedge interest rate and inflation risks arising from the Fund's liabilities, whereas the Equity Protection Strategy (EPS) is designed to shield the Fund from a large drawdown in the value of its underlying equity holdings.

He said that the Investment Panel reviews the strategies annually to assess whether there has been a material change in market conditions which requires an adjustment to any of the strategies to ensure they meet the strategic objectives. He added that the Panel monitors the collateral adequacy, the performance of the strategies and the performance of the manager, Blackrock.

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED,** in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The Panel **RESOLVED** to:

i) Note Mercer's report reviewing the strategies and collateral position

ii) Recommend to the Committee that the existing trigger framework for the LDI strategy should be maintained

iii) Recommend to the Committee that the inflation hedge be reinstated outside of the trigger framework to the level it was prior to the restructure that took place in March, and to further examine the implementation of restoring the hedge, then consider the necessity of further increasing the hedge following conclusion of the RPI reform, and delegate to Officers.

19 BRUNEL PENSION PARTNERSHIP - UPDATE ON POOLING

The Group Manager for Funding, Investments & Risk introduced this report to the Panel. She stated that it outlines the progress on pooling of assets with specific reference to the investment activities.

She explained that assets that have transitioned now total £2.96bn (at 31/06/20) and that in addition, Brunel invests £110m in secured Income and £40m in Renewable Infrastructure on behalf of the Fund.

The Panel, having been satisfied that the public interest would be better served by not disclosing relevant information, **RESOLVED,** in accordance with the provisions of the Section 100(A)(4) of the Local Government Act 1972 that the public should be excluded from the meeting for this item of business, because of the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12A of the Act as amended.

The Panel **RESOLVED** to:

i) Note the progress made on pooling of assets.
ii) Note the project plan for the transition of assets.

20 EQUITY PORTFOLIO REVIEW

The Group Manager for Funding, Investments & Risk introduced this report to the Panel. She explained that one of the actions from the Strategic Review which concluded in April 2020 was to assess the viability for all the equity assets to be invested in low carbon and sustainable solutions.

She stated that the review will need to assess the following:

a) The impact on overall risk and return to ensure there is no unforeseen bias or increase in risk

b) Whether the Emerging Market Equity premium can be adequately captured under sustainable or low carbon strategies

c) Likewise for the potential allocation to Global Small Cap equities which was recommended as part of the strategic review to reduce overall risk

She informed the Panel that the review is planned for 2021 so that it can incorporate a number of timing issues. She added that the IIGCC led project to create a framework for analysing what $<2_{0}$C aligned asset portfolios should look like is underway and will progress into 2021.

She said that as a result of this project, the Fund will have a more informed view as to whether the equity portfolios offered by Brunel are aligned with the $<2_{0}$C objective or whether it needs to invest in more narrowly defined portfolios.

She stated that a series of workshops would take place under the review and that the intention was to report back to the Committee in September 2021.

The Chair said that during the review he would welcome some discussion on whether $<1.5_{0}$C portfolios were achievable.

The Panel **RESOLVED** to agree the brief for the Equity Portfolio Review.

21 REVIEW OF INVESTMENT PERFORMANCE FOR PERIODS ENDING 30 JUNE 2020

The Investments Manager introduced this report to the Panel. He said that following the conclusion of the 2019/20 investment strategy and the resultant asset allocation changes, officers have been working with Mercer and the Fund's Custodian to revise the strategic benchmark that the Fund uses to benchmark total performance.

He added that officers and Mercer continue to work with the Custodian to explore options for integrating the Fund's FX overlay programme into the strategic benchmark in a cost-efficient manner.

Steve Turner, Mercer referred the Panel to page 20 of Appendix 2 and said that there had been a huge rally in all assets, especially Global Equity and forms of credit. He added that funding was only 2-3% below the recovery plan.

He referred to the divergence in returns across sectors during the pandemic, noting strong performance in the technology sector which represents c.20% of the global market and cautioned that the oil & gas sector, which dominates the UK market, could face headwinds as low carbon energy solutions continue to gain traction.

He suggested that as much of the portfolio had now transitioned to Brunel that it would be a good time to consider the style of the performance report moving forward.

The Group Manager for Funding, Investment & Risk agreed and said they should meet and agree the best way to do that, including their attendance at future meetings.

Pauline Gordon said that the Blackrock performance figure was wrong as it should be in-line with benchmark in its passive equity. She added that there was also a similar issue last quarter.

The Investments Manager replied that Mercer were sweeping up a legacy passive sleeve which accounts for a slight discrepancy. He added that an update would be provided on this at the Committee.

Pauline Gordon asked if any details could be given as to why Partners Property were behind nearly 10% over 3 months.

Ross Palmer, Mercer replied that the number showing for Partners is actually lagged by a Quarter and that the figure for Q2 was 3.4%.

John Finch asked how much of the Global Equity Portfolio was either local market or local currency in terms of excess returns.

Steve Turner replied that it was all local currency. He added that one of the long-term managers, Baillie Gifford had outperformed by around 30% over the Quarter.

He said that they have largely benefitted from their holdings in digital and e-commerce companies such as Tesla, Amazon, Shopify, Nintendo and Zoom.

The Chair highlighted that during the quarter Brunel published their first Responsible Investment and Stewardship Outcomes Report, which evidences policy commitments on ESG risk integration, engagement and stewardship activities.

He added that the shareholder resolution that Brunel co-filed with ShareAction requesting that Barclays publish a plan to phase out the provision of financial services to non-Paris aligned oil and gas companies led to the company publicly stating an ambition to become net zero by 2050. The shareholder resolution itself won significant minority support.

The Panel **RESOLVED** to note the information as set out in the reports.

22 FORWARD AGENDA

The Group Manager for Funding, Investment & Risk introduced this report to the Panel. She highlighted that Brunel would give an overview presentation of Listed Market Portfolios at the November meeting and one on Private Market Portfolios at the February 2021 meeting.

The Panel **RESOLVED** to note the forward agenda.

The Chair thanked the representatives from Brunel and Mercer for attending alongside the officers from the Avon Pension Fund for their reports and contributions to the meeting.

The meeting ended at 4.00 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**20 November 2020**	**AGENDA ITEM NUMBER**
TITLE:	**Dynamic Equity Protection: Strategy Design**	
WARD:	**ALL**	
OPEN		
List of attachments to this report: EXEMPT Appendix 1 – Mercer Paper: Dynamic Equity Protection Strategy Design		

1 THE ISSUE

1.1 The Fund currently uses a static hedging structure. At its August meeting Panel agreed to implement a bank-led dynamic approach that uses a total return swap ('TRS') on a custom index. This approach seeks to build on the principles of the static structure i.e. offers the fund downside protection and finances this protection by giving a certain percentage of upside away. The main differences of a dynamic approach versus the existing static structure is that it trades 'little and often', seeking to limit timing risk, reduce volatility and improve overall risk-adjusted returns.

1.2 One of the significant challenges of implementing a dynamic structure is measuring its success. Benchmarking a static structure is relatively simple given that it has a finite life and its value is determined on a single expiry date. With a dynamic strategy the most intuitive way of presenting performance is to show the extent to which it has either added or detracted from equity market returns and how it has served to reduce volatility over a given period of time.

1.3 This paper considers the strategy design of a dynamic protection strategy, the performance of the strategy under various market scenarios as well as finer implementation points. Mercer will present their report at the meeting (see Exempt Appendix 1). Following this meeting Officers will continue to work with Mercer to refine the strategy, which will include the appointment of a counterparty bank, in order to meet the target implementation date in 2021.

2 RECOMMENDATION

That the Panel:

2.1 **Agrees to implement the bank-led dynamic equity protection strategy by using a "Put Spread Calendar Collar" structure and agrees the design parameters as set out in Exempt Appendix 1.**

2.2 **Delegates the implementation of the strategy, including the appointment of a bank counterparty, to Officers and Mercer.**

3 FINANCIAL IMPLICATIONS

3.1 The risk management strategies have been implemented to provide greater certainty that the funding plan will be achieved and therefore contribution levels will be stable and minimised. Any changes to the framework can affect the level of employer contributions in the future.

4 DYNAMIC PROTECTION STRUCTURES: STRATEGY DESIGN

4.1 Mercer have run a number of back-tests across different timeframes and using various dynamic implementation approaches to arrive at a recommendation that optimises risk-adjusted returns. The three main approaches include:

1. **Put spread** – offers ongoing protection with no limit to upside participation although a 'premium' is payable by the Fund.
2. **Put spread collar** – Same structure as the existing static approach where the protection is financed by giving away equity market gains beyond a certain point. This approach is structured to incur a nil upfront cost or 'premium'.
3. **Put spread calendar collar** – Similar to option (2) but involves selling the upside more frequently to generate income (in the form of 'premium' received) while fulfilling the main objective of reducing volatility.

4.2 Mercer recommend implementing a Put spread calendar collar.

5 PUT SPREAD CALENDAR COLLAR: DESIGN CONSIDERATIONS

5.1 The main issues that will need to be considered as part of the recommended approach will be;

I. The increase in transaction costs that arise from more frequent trading relative to the potential to earn greater risk-adjusted returns under a put spread calendar collar approach.

II. Fixing the level of upside participation at inception of the strategy and the impact on the Fund's required equity return.

III. Consideration of the initial complexity involved in the set-up phase relative to the reduced ongoing governance burden that comes from adopting a dynamic approach.

IV. The risk that the premium collected under a put spread calendar collar approach is insufficient to offset the cost of downside protection.

5.2 These risks are assessed in detail in Exempt Appendix 1 and are used to inform the parameters of the recommended structure.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 EQUALITIES

8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager, 01225 395357
Background papers	None.
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1337/20

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 20 November 2020

Author: Nathan Rollinson
Report Title: Dynamic Equity Protection: Strategy Design List of attachments to this report: **Exempt Appendix 1** - Mercer Paper: Dynamic Equity Protection Strategy Design

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendix be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Panel wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972

Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendix contains information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Panel should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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<table>
<tr><th colspan="3">Bath & North East Somerset Council</th></tr>
<tr><td>MEETING:</td><td colspan="2">AVON PENSION FUND INVESTMENT PANEL</td></tr>
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<tr><td>WARD:</td><td colspan="2">ALL</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Exempt Appendix 1 – Diversified Returns Fund Transition outcome
Exempt Appendix 2 – Plan for transition of Avon’s assets to Brunel portfolios
Exempt Appendix 3 – Risk Register for transition of Avon’s assets to Brunel portfolios</td></tr>
</table>

1 THE ISSUE

1.1 This report outlines the progress on pooling of assets with specific reference to the **investment activities**.

1.2 Brunel’s transition plan is monitored by the Client Group Investment sub-group on a regular basis.

1.3 The Avon Risk Register for the transition of its assets to Brunel is included as an appendix.

1.4 A verbal update will be provided at the meeting.

2 RECOMMENDATION

That the Panel:

2.1 **Notes the progress made on pooling of assets.**

2.2 **Notes the project plan for the transition of assets.**

3 FINANCIAL IMPLICATIONS

3.1 The fees that Avon will pay to Brunel are included in the budget for 2020/21. They have been calculated in line with the pool’s pricing policy. During the transition, the fees are based on a mixture of equal1/10ths and AUM. In later years a greater element of costs will be paid via portfolio fees.

4 INVESTMENTS UPDATE

4.1 Assets that have transitioned now total £3.19bn (at 31/09/20). In addition, Brunel invests £109.3m in secured Income and £40.2m in Renewable Infrastructure on behalf of the Fund. The investments in private Debt has yet to commence.

Brunel portfolio	**Value at 30/09/20**	**Transitioning Mandates / Managers**	**Date transitioned**
Passive Equities	£616.9m	Low Carbon Global Equities - Blackrock	July 2018
UK Equities	£0m	UK Equities - TT International	Nov 2018
Emerging Market Equities (EM)	£246.6m	EM Equities – Genesis, Unigestion	Oct 2019
Global High Alpha Equities (GHA)	£358.0m	Global Equities - Schroders	Nov 2019
Risk Management Strategies	£981.9m	Blackrock LDI and EPS	Oct 2019
Diversified Return Funds	£493.1m	Diversified Growth Funds – Pyrford, Ruffer (partial)	July 2020
Sustainable Equities	£494.0	Jupiter UK Equities, Jupiter Global Sustainable Fund, Brunel UK Equities, Brunel Global High Alpha (partial)	September 2020

4.2 To fund the allocation to Sustainable Global Equities in line with the strategic allocation the Brunel UK Equity fund was sold as were the two mandates with Jupiter. The balance was funded by the partial sale of the Brunel Global Equity portfolio.

4.3 There will be a verbal update at the meeting regarding the portfolios that are in transition.

4.4 Exempt Appendix 1 provides an update of the transition outcome for the Diversified Returns Portfolio.

4.5 Exempt Appendix 2 shows the transition plan for Avon’s assets. There is a slight change from the last meeting. The transition plan is continuously reviewed by Brunel and the Client Group to ensure Client priorities are considered. Actual timing will depend on a number of considerations including the complexity of each transition and market conditions. Please note that this plan only includes the portfolios relating to Avon mandates; additional portfolios will be established along the same timelines. The plan is still on track overall to complete on time as set out in Brunel's 2020/21 Business Plan.

4.6 Brunel provides quarterly investment reports client group and pension committees. The report for Avon is included as an appendix to the Quarterly Investment Monitoring report on this agenda.

4.7 Avon's project plan includes a Risk Register (see Exempt Appendix 3) of risks specific to the transition for Avon. One risk has reduced from Medium to Low.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

9.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
Background papers	Brunel Client Group papers
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: LGA 1340/20

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 20 November 2020

Author: Liz Woodyard
Report Title: Brunel Pension Partnership – Update on pooling List of attachments to this report: **Exempt Appendix 1** – Diversified Returns Fund Transition outcome **Exempt Appendix 2** – Plan for transition of Avon's assets to Brunel portfolios **Exempt Appendix 3** – Risk Register for transition of Avon's assets to Brunel portfolios

The appendices to the report contain exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: 3. *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

PUBLIC INTEREST TEST

If the Committee wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendices contain information on potential future trades by the fund, and include information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and would prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Committee should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**
MEETING DATE:	**20 NOVEMBER 2020**
TITLE:	**Review of Investment Performance for Periods Ending 30 September 2020**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report EXEMPT Appendix 3 – Risk Management Framework Quarterly Monitoring Report Appendix 4 – Brunel Quarterly Performance Report EXEMPT Appendix 5 – Mercer Paper: Brexit Scenario Analysis	

1. THE ISSUE

1.1. This paper reports on the performance of the Fund's investment managers and seeks to update the Panel on routine aspects of the Fund's investments. The report contains performance statistics for period ending 30 September 2020.

1.2. The report focuses on the performance of the individual investment managers and the implementation of the investment strategy. The full performance report with aggregate investment and funding analysis will be reported to the Committee meeting on 11 December 2020.

1.3. The report also includes the Risk Monitoring report (exempt appendix 3) produced by Mercer which includes details of the Fund's liability driven investment strategy and equity protection strategy.

1.4. Appendix 4 is the quarterly performance report published by Brunel which focuses on the performance of the Brunel portfolios and responsible investment activity undertaken on the Fund's behalf over the quarter.

1.5. Exempt Appendix 5 is for reference only; it discusses the current Brexit position and risks to various asset classes and the impact these scenarios are likely to have on the Fund's funding level.

2. RECOMMENDATION

2.1. **Notes information as set out in the reports.**

2.2. **Identifies any issues to be notified to the Committee.**

3. FINANCIAL IMPLICATIONS

3.1. The returns achieved by the Fund for the three years commencing 1 April 2019 will impact the next triennial valuation which will be calculated as at 31 March 2022. The returns quoted are net of investment management fees.

4. INVESTMENTS UPDATE

A – Fund Performance

4.1. The Fund's assets increased by £77m in the quarter (c. 1.9% net investment return) ending 30 September 2020 giving a value for the Fund of £5,032m. Appendix 1 provides a breakdown of the Fund valuation and allocation of monies by asset class and managers.

4.2. Global equity markets ended the quarter in positive territory. The developed markets were up 6.6% in local currency terms while emerging markets appreciated by 8.8%. US equities were the strongest performer driven mostly by growth technology stocks. The depressed energy sector weighed heavily on UK equities which depreciated over 3% per the FTSE All Share index. 10-year benchmark US and UK yields ended the quarter higher reflective of "risk-on" sentiment and credit spreads narrowed. Sterling appreciated against the US Dollar by 4.6% and by 2.3% against the Japanese Yen and was flat versus the Euro over the quarter. Further information on 3Q asset class performance can be found on page 9 of Appendix 2. Post period-end the US election result and a COVID-19 vaccine breakthrough sparked an equity market rally, pushing prices to all-time highs.

4.3. The Fund's overall performance relative to benchmarks is unavailable at the time of publishing. Full performance data will be reported to the Pensions Committee on 11 December 2020.

B – Investment Manager Performance

4.4. A detailed report on the performance of each investment manager has been produced by Mercer – see pages 22 to 41 of Appendix 2.

4.5. Brunel reports on the performance of the assets they manage on behalf of the Fund. The report for each Brunel portfolio can be found in Appendix 4. Mercer continue to provide quarterly commentary and analysis of all the Fund's mandates and at the strategic total fund level.

4.6. Manager total returns over the quarter were positive for all assets, except for the UK equity mandates. Global and Emerging Market Equities performed strongly. The Fund's Hedge Fund mandate performed well, both in local and Sterling currency terms. Multi-Asset Credit strategies also performed well and the Fund's residual holding in its legacy DGF manager posted modest gains over the quarter. Property returns over the quarter were positive, noting that the Overseas Property mandate is lagged by one quarter. Valuation uncertainty persists in this asset class. Over the year, returns displayed a similar pattern with most asset classes posting positive absolute and relative returns, with the exception of property and core infrastructure. The 1-year relative underperformance in the core infrastructure mandate is partly a result of Sterling appreciating against the US dollar in the final quarter of 2019, before the Fund switched into a GBP share class. The relative underperformance is exacerbated by the managers ‘cash+’ benchmark. Over a 3-year period core infrastructure delivered significant value. Of the other mandates with a 3-year track record returns were mixed. The legacy DGF manager and MAC manager underperformed their cash benchmarks but posted c.3% and c.2% absolute returns, respectively.

C – Risk Management Framework Quarterly Monitoring Report

4.7. A detailed report of the performance of the Fund’s risk management strategies including details of how the Fund’s collateral position has changed over the quarter is presented in Exempt Appendix 3.

4.8. The Fund’s equity protection strategy declined in value over the quarter, as markets rose further from the protection levels in place. All regions of the equity protection strategy posted a positive market value at the end of the period, except for the US as underlying equity markets in this region moved significantly higher. An adjustment to the underlying regional make-up of the options was made during the quarter to ensure minimal mismatch between the protection strategy and the underlying physical equity exposure, where UK equities were exited to facilitate the transition to the Brunel Global Sustainable Equity portfolio.

4.9. The value of the Fund’s LDI portfolio increased slightly, mainly due to a small rise in implied inflation. The Fund’s inflation hedge ratio was increased to 35% of assets in line with the recommendation agreed by Committee at its September meeting. Further work will be undertaken by Officers and Mercer under delegated authority to consider increasing the inflation hedge to the maximum allowable under mandate guidelines following the outcome of the RPI reform consultation, which is due to be released on 25 November.

5. INVESTMENT STRATEGY AND PORTFOLIO REBALANCING

5.1. **Asset Class Returns versus Strategic Assumptions:** Developed market equity returns over the last 3 years were 9.4% p.a., ahead of the assumed strategic return of 6.8% p.a. used during the 2019/20 investment strategy review. The 3-year return from emerging market equities was 4.6%; below the assumed 3-year return of 8.3%. Over the 3-year period index-linked gilts returned 7.0% p.a. versus an assumed return of 1.6%. The 3-year UK property return of 3.2% p.a. lags its assumed return of 5.2%, due to continued recent uncertainty.

5.2. **Rebalancing:** £290m of passive equities were switched into gilts within the BlackRock QIF in order to reduce the Fund’s overweight equity allocation and top up the collateral pool for the risk management strategies.

5.3. **Private Markets Investments:** At 30 September 2020 34% of the Fund’s cycle 1 £115m commitment to Brunel’s renewable infrastructure portfolio had been deployed and 32% of the Fund’s £345m commitment to the secured income portfolio had been deployed. The pace of capital deployment across both asset classes remains slow due to managers deferring acquisitions as a result of the pandemic. The current best estimate suggests further capital will not be called until late 2020 into March 2021 for the long-lease property funds. Capital calls are expected to resume sooner for the infrastructure portfolio as tactical opportunities are explored. The operational infrastructure element of the secured income portfolio has not been affected to the same extent as the long-lease property assets and the Fund’s entire commitment of £94m to the underlying manager has been called following the acquisition of a renewable energy plant.

5.4. **Responsible Investment (RI) Activity:** During the quarter Brunel joined the Workforce Disclosure Initiative. The initiative calls for greater transparency on workforce policies and practices in companies' direct operations and supply chains. Brunel also joined the Good Work Coalition, which engages with companies on the importance of a real living wage and living hours.

5.5. Separately, the Fund pledged its support for an engagement initiative targeting marine microplastic pollution; a priority theme for the Fund as outlined in the Fund's recently published Responsible Investing Annual Report.

5.6. **Voting and Engagement Activity:** Hermes engaged with 211 companies held by Avon in the Brunel segregated portfolios on a range of 606 ESG issues. Environmental topics featured in 28.9% of engagements, 78.9% of which related directly to climate change. Social topics featured in 21.0% of engagements, where human capital, human rights and diversity featured prominently. Of the 29.7% of Governance related engagements most focussed on executive remuneration and board diversity. Over the last quarter Hermes made voting recommendations at 124 meetings (1,397 resolutions). At 57 meetings they recommended opposing one or more resolutions. Over 70% of the issues Hermes voted against management on comprised board structure and remuneration. Aggregate voting data across all the Fund's investment managers will be reported to Committee at their next meeting.

6. RISK MANAGEMENT

6.1. The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7. EQUALITIES

7.1. A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8. CLIMATE CHANGE

8.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9. OTHER OPTIONS CONSIDERED

9.1. None

10. CONSULTATION

10.1. The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Nathan Rollinson, Investments Manager (Tel. 01225 395357)
Background papers	Data supplied by Mercer, Brunel & State Street Performance Measurement
Please contact the report author if you need to access this report in an alternative format	

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Bath & North East Somerset Council

Access to Information Arrangements

Exclusion of access by the public to Council meetings

Information Compliance Ref: 1338/20

Meeting / Decision: Avon Pension Fund Investment Panel
Date: 20 November 2020

Author: Nathan Rollinson
Report Title: Review of Investment Performance for Periods Ending 30 September 2020 **List of attachments to this report:** List of attachments to this report: Appendix 1 – Fund Valuation Appendix 2 – Mercer Performance Monitoring Report **Exempt Appendix 3** – Risk Management Framework Quarterly Monitoring Report Appendix 4 – Brunel Quarterly Performance Report **Exempt Appendix 5** – Mercer Paper: Brexit Scenario Analysis

The Report contains exempt information, according to the categories set out in the Local Government Act 1972 (amended Schedule 12A). The relevant exemption is set out below.

Stating the exemption: *3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

The public interest test has been applied, and it is concluded that the public interest in maintaining the exemption outweighs the public interest in disclosure at this time. It is therefore recommended that the exempt appendices be withheld from publication on the Council website. The paragraphs below set out the relevant public interest issues in this case.

Bath & North East Somerset Council

PUBLIC INTEREST TEST

If the Panel wishes to consider a matter with press and public excluded, it must be satisfied on two matters.

Firstly, it must be satisfied that the information likely to be disclosed falls within one of the accepted categories of exempt information under the Local Government Act 1972. Paragraph 3 of the revised Schedule 12A of the 1972 Act exempts information which relates to the financial or business affairs of the organisations which is commercially sensitive to the organisations. The officer responsible for this item believes that this information falls within the exemption under paragraph 3 and this has been confirmed by the Council's Information Compliance Manager.

Secondly, it is necessary to weigh up the arguments for and against disclosure on public interest grounds. The main factor in favour of disclosure is that all possible Council information should be public and that increased openness about Council business allows the public and others affected by any decision the opportunity to participate in debates on important issues in their local area. Another factor in favour of disclosure is that the public and those affected by decisions should be entitled to see the basis on which decisions are reached.

The exempt appendices contain information on potential future trades by the fund, and includes information on costs and structures that may impact the ability to procure efficiently in the near future. This information is commercially sensitive and could prejudice the commercial interests of the organisation if released. It would not be in the public interest if advisors and officers could not express in confidence opinions or proposals which are held in good faith and on the basis of the best information available.

It is also important that the Panel should be able to retain some degree of private thinking space while decisions are being made, in order to discuss openly and frankly the issues under discussion in order to make a decision which is in the best interests of the Fund's stakeholders.

The Council considers that the public interest has been served by the fact that a significant amount of information regarding the report has been made available – by way of the main report. The Council considers that the public interest is in favour of not holding this matter in open session at this time and that any reporting on the meeting is prevented in accordance with Section 100A(5A)

APPENDIX 1

AVON PENSION FUND VALUATION - 30 SEPTEMBER 2020

	Brunel Portfolios	Cash Management Strategy	QIF	Funds of Hedge Funds	DGFs	MAC	Property		Infra-stucture	Currency Hedging	In House Cash	TOTAL	Avon Asset Mix %
All figures in £m	Multi	BlackRock	BlackRock	JP Morgan	Ruffer	Loomis	Schroder (UK)	Partners (Overseas)	IFM	Record	General Cash		
Equities													
UK												0.0	0.0%
Emerging Markets	246.6											246.6	4.9%
Global Developed Markets	358.0		222.8									580.8	11.5%
Global Sustainable Equities	494.0											494.0	9.8%
Global Low Carbon	616.9											616.9	12.3%
Equity Derivatives[1]			38.0							15.5		53.5	1.1%
Total Overseas	***1715.5***		***260.8***									***1976.3***	**39.6%**
Total Equities	**1715.5**		**260.8**							**13.8**		***1990.1***	**39.6%**
Exchange-Traded Funds		**46.0**										***46.0***	**0.9%**
DGFs	**493.1**				**150.5**							***643.6***	**12.8%**
Hedge Funds				**268.7**								***268.7***	**5.3%**
MAC						**302.5**						***302.5***	**6.0%**
Property							**223.7**	**207.4**				***431.1***	**8.6%**
Infrastructure									**345.5**			***345.5***	**6.9%**
Renewable Infrastructure	**40.2**											***40.2***	**0.8%**
Secured Income	**109.3**											***109.3***	**2.2%**
LDI Assets & Bonds													
LDI Assets			587.9									587.9	11.7%
Corporate Bonds			133.2									133.2	2.6%
Total Bonds			**721.1**									***721.1***	**14.3%**
Cash											120.7	***128.0***	**2.5%**
FX Hedging										5.3		***5.3***	**0.1%**
TOTAL	**2358.1**	**46.0**	**981.9**	**268.7**	**150.5**	**302.5**	**223.7**	**207.4**	**345.5**	**19.1**	**120.7**	**5031.7**	**100.0%**

[1] Negative equity values mean the equity protection strategy in the BlackRock QIF has detracted from overall performance

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Avon Pension Fund

Panel Investment Performance Report
Quarter to 30 September 2020

November 2020

Steve Turner
Ross Palmer

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

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Contents

Section 1
Executive Summary

EXECUTIVE SUMMARY

This report has been prepared for the Investment Panel of the Avon Pension Fund ("the Fund"), to assess the performance and risks of the investment managers of the Fund.

Fund Performance

- Invested assets increased by £77m over the quarter to 30 September 2020, to £5,032m. Modest positive performance was seen across most asset classes, particularly overseas equity, as markets continued to be buoyed by central bank liquidity. The only negative performers in the portfolio were UK equities, which remain subdued as Brexit negotiations rumble on, and secured income, which is still in the process of being drawn down.

Strategy

- Global (developed) equity returns over the last three years were 9.4% p.a., above the assumed strategic return of 6.8% p.a. from the strategy reviews over 2019. We remain broadly neutral in our medium-term outlook for developed market equities (over the next one to three years), though have cause for optimism on their outlook due to the backdrop of low bond yields, low inflation and very pro-growth policy makers creating a favourable environment, not withstanding the risks associated with the US election and Brexit.
- Emerging market equities have returned 4.6% p.a. over the three-year period, behind the assumed return of 8.3% p.a. Emerging markets are still more attractively priced than other developed market regions, in our view. The macro environment remains mixed for emerging markets but the continued recovery over the last quarter could continue their recent momentum.
- High yield bonds returned 4.9% p.a. over the three-year period, slightly ahead of the assumed strategic return of 4.4%, whilst UK corporate bonds were also ahead of their 2.6% target with returns of 4.7% p.a..
- The three-year UK property return of 3.2% p.a. is behind the assumed return of 5.2% p.a., suppressed by recent uncertainty.
- UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains strong, though gilt yields saw a slight shift upwards over the quarter. Fixed interest gilts returned 9.5% p.a. over three years versus an assumed return of 1.5% p.a., whilst index-linked gilts also returned 7.0% p.a. versus an assumed return of 1.6% p.a.
- The Fund's currency hedging policy was positive overall for Fund performance over the quarter, since Sterling appreciated against the Dollar.

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EXECUTIVE SUMMARY

Managers

- Manager total returns over the quarter were positive for all assets, with the exception of the UK Equity mandates, where wider markets continued to struggle, and also the Secured Income mandate which is still being drawn down. Global Equities and Emerging Market Equity had another strong quarter with a continued recovery in prices. The Hedge Fund mandate was also a strong performer, whilst MAC and Corporate Bonds also grew as spreads continued to narrow. The DGF mandate preserved value, whilst the Property mandate also managed to deliver positive performance despite the uncertainty associated with the asset class.
- The value of the Fund's LDI portfolio increased slightly, mainly due to a small rise in implied inflation.
- The LDI portfolio remains down over the one year period to 30 September. The recovery in the Property and the Core Infrastructure mandate were not enough to bring them into positive territory, though the Renewable Infrastructure mandate is modestly up over the year. UK Equity was significantly down, but all other Equities were up, as were the Credit mandates, DGF and Hedge Fund mandate. In addition, the majority of assets achieved positive relative performance over the period.
- Over the three-year period, three of the active mandates in place for this time –JP Morgan, Schroder Property and IFM – outperformed their benchmarks, though JP Morgan and IFM were the only ones to exceed their performance objectives. The recently terminated Jupiter UK Equity mandate underperformed over this period, as did Ruffer, Loomis Sayles and Partners.

Key Points to Note

- The Fund's new strategic benchmark is reflected in this report, having become effective as at 1 April 2020.
- The Pyrford DGF holding was terminated towards the start of the quarter, which, alongside a partial redemption of the Ruffer DGF, was used to fund the new Brunel Diversified Returns mandate.
- The UK Equity mandates with Jupiter and Brunel, along with the small Jupiter Global Sustainable Equity holding, were terminated towards the end of the quarter to fund the new Brunel Global Sustainable Equity mandate.
- Separately, at the end of the quarter, the Fund's inflation hedge ratio was increased to c. 35% of assets. This was done in conjunction with a rebalancing exercise, with assets switched from equities to gilts within the BlackRock QIF in order to reduce the Fund's overweight equity allocation and top up the collateral pool for the risk management strategies.
- At quarter end all asset classes were within their ranges, except for the Secured Income, Renewable Infrastructure and Private Debt mandates which are in the process of being drawn down.

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EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	Passive	Global Equity	A	✓	✓	P2	22
BlackRock	Passive	Corporate Bond	A	✓	✓	N	22
BlackRock	Passive	LDI	A	✓	✓	N	22
BlackRock	Passive	ETF	N/A	N/A	N/A	-	22
Jupiter	Active	UK Equity	R	-	✕	N	23
Brunel	Active	UK Equity	N/A	-	N/A	-	24
Jupiter	Active	Global Sustainable Equity	N	✓	N/A	N	25
Brunel	Active	Global Sustainable Equity	N/A	N/A	N/A	-	-
Brunel	Active	Global High Alpha Equity	N/A	N/A	N/A	-	26
Brunel	Passive	Global Low Carbon Equity	N/A	✓	N/A	P1	27
Brunel	Active	Emerging Market Equity	N/A	N/A	N/A	-	28

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	X	C rating; did not achieve benchmark

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EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Type	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Ruffer	Active	DGF	A	✓	✕	2	29
Brunel	Active	Diversified Returns	N/A	N/A	N/A	-	-
Loomis Sayles	Active	Multi-Asset Credit	A	✕	✕	3	30
JP Morgan	Active	Fund of Hedge Funds	R	✓	✓	N	31
Schroder	Active	UK Property	B	-	-	3	34
Partners	Active	Global Property	B+	✕	✕	4	35
Brunel	Active	Secured Income	N/A	✕	N/A	-	36
IFM	Active	Core Infrastructure	B+	✕	✓	2	37
Brunel	Active	Renewable Infrastructure	N/A	✓	N/A	-	38
Record Currency Management	Active	Currency Hedging	N	N/A	N/A	N	39

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	✕	C rating; did not achieve benchmark

Focus Points

- Three of the active mandates which have been in place for at least three years have outperformed their benchmark, with two also meeting their outperformance objective.
- The UK Equity mandates, and the Jupiter Global Sustainable Equity mandate, were terminated towards the end of the quarter to fund the new Brunel Global Sustainable Equity mandate.
- The Pyrford DGF was also terminated towards the start of the quarter, which alongside a partial redemption off the Ruffer DGF, was used to fund the new Brunel Diversified Returns mandate.
- The Fund also commenced at the end of the quarter an increase to its inflation hedge ratio, to c. 35% of assets, which involved a transition from the underlying equity component of the BlackRock portfolio to the LDI component as collateral.

Section 2

Market Background

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The strong economic rebound that started in early summer continued over the third quarter but started to slow towards quarter end. Manufacturing, services, trade, retail sales and the labour market recouped a large proportion of the losses from earlier in the year when many economies came to a standstill overnight. The rebound narrative along with continued monetary and fiscal policy support drove a risk-on rally, leading to another quarter of strong returns for risk assets and weaker performance for defensive assets.

Early estimates for the third quarter of 2020 indicate a strong rebound in the US economy. Monetary policy remained very loose, with the Federal Reserve officially moving to an average target inflation regime that will tolerate higher inflation in some periods to make up for lower inflation in others. China is still furthest ahead in terms of economic recovery after its GDP rebounded by 11.5% quarter-on-quarter (non-annualised, seasonally adjusted) to the end of June 2020. Emerging markets outside East Asia remain the epicenter of the disease, which is hampering economic activity, especially in India and Latin America. In the UK, an increase in restrictions towards quarter end has tempered the strong economic rebound seen earlier in the quarter.

Global equity markets continued to rally, returning 3.4% in sterling terms and 7.0% in local currency terms – on top of the double digit recovery seen during the second quarter and in spite of a brief sell-off during September. A number of indices, including the S&P500 are now in positive mid-single digit territory year-to-date. The September sell-off was driven by concerns over frothy technology stock valuations, fear of renewed restrictions in large economies, political gridlock in Washington and the US election.

Bond Market Review

The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment. UK monetary policy was unchanged but on the fiscal side, another spending package was announced over the quarter.

UK real yields shifted up over the quarter, in line with the small increase in nominal yields, offset to a degree by rising break-evens. The still ongoing RPI consultation is still creating uncertainty for UK inflation-linked bonds.

Credit spreads narrowed over the quarter as risk-on sentiment remained. This has been a bumper year already in terms of investment grade issuance but strong institutional demand and liquidity from central banks have kept credit markets stable, some volatility in investment grade credit markets during August notwithstanding.

Currency Market Review

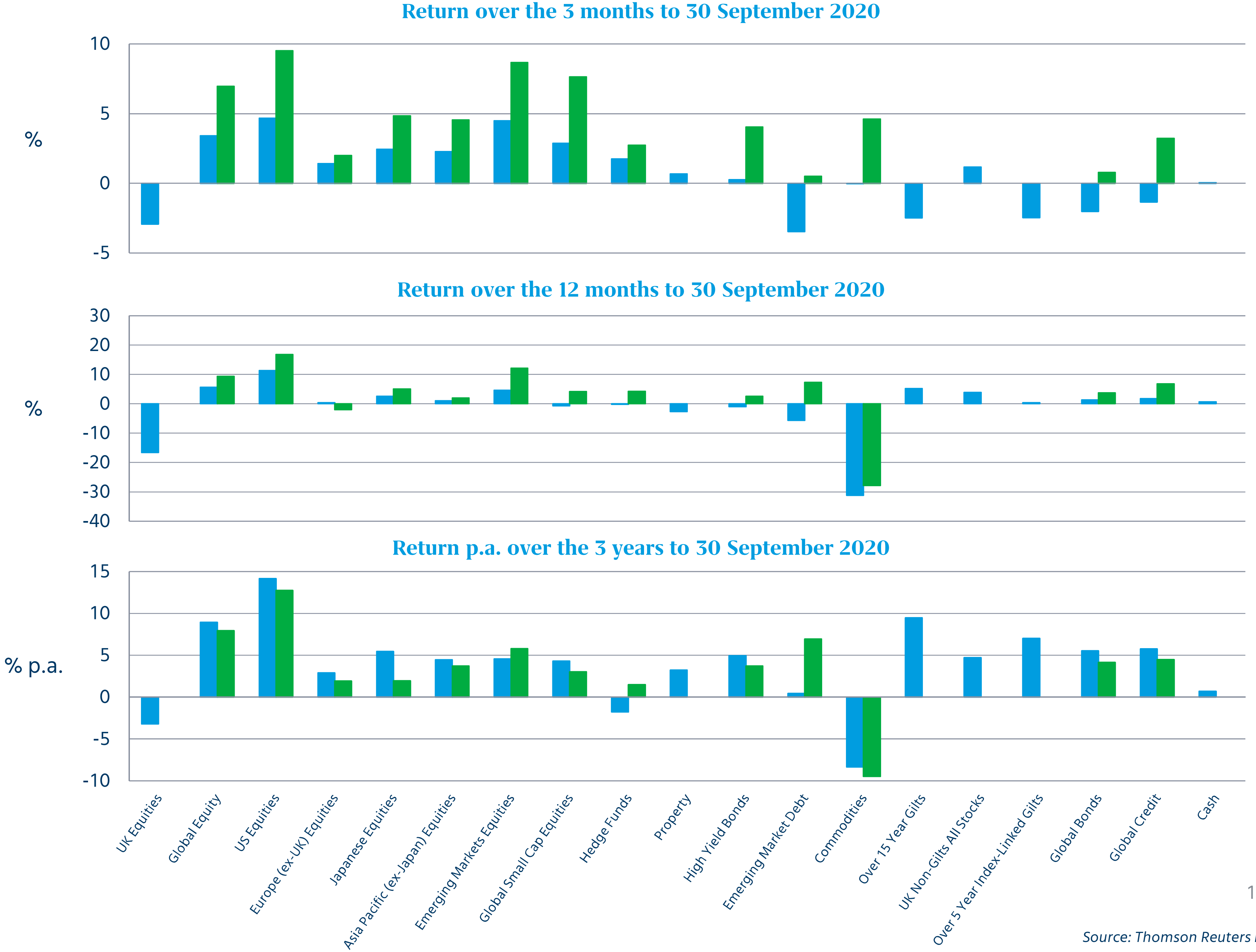
Sterling strengthened against the US dollar over the quarter (by 4.6%) which was more driven by US dollar weakness across the board as investors priced in lower rates for longer and higher inflation in the US. Sterling also appreciated against the Yen (by 2.3%) and was broadly flat (up by 0.2%) against the Euro. Sentiment was boosted by a strong rebound in UK economic activity over summer and markets shrugged off the continued stalemate over a trade deal with the EU that was exacerbated by the UK endeavoring to reopen and renegotiate the Withdrawal Agreement.

Commodity Market Review

Commodity markets continued their rebound over the quarter, except for energy. Having started the quarter strongly, in September, gold performed poorly as investors started to question the sustainability of the prolonged rally. Agricultural commodities performed well amid supply constraints in major producing countries that are heavily impacted by the pandemic.

Source: Thomson Reuters Datastream, Consensus Economics, ONS

MARKET BACKGROUND
INDEX PERFORMANCE



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Source: Thomson Reuters Datastream.

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Section 3

Strategic Assumptions

INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Global Developed Equity (FTSE AW Developed)	6.8	9.4	*The three year return of global developed equities has been ahead of the assumed strategic return. This increased against last quarter after a return of 3.3% over Q3.*
Emerging Market Equity (FTSE AW Emerging)	8.3	4.6	*The three year return from emerging market equities was unchanged and remained behind the assumed strategic return despite a modest Q3 return of 4.5%.*
Diversified Growth (Libor + 5%)	5.7	5.7	*DGFs are expected to produce an attractive return over the long term but with lower volatility than equities – this is the basis for the Libor based benchmark. Low cash rates means benchmark has underperformed the long term expected return from equity. An absolute strategic return of 5.7% p.a. has been used, along with the specific manager target for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.*
High Yield Bonds (BofAML Global High Yield)	4.4	4.9	*The three year return of high yield bonds has been ahead of the assumed strategic return.*
UK Corporate Bonds (BofAML Sterling Non Gilts)	2.6	4.7	*Corporate bond returns grew compared to last quarter as spreads continued to narrow, taking the three year return further ahead of the assumed strategic return.*
Property (IPD UK Monthly)	5.2	3.2	*Actual property returns fell further behind expected returns. Despite growth in the index of 0.7% over Q3, this was lower than the quarter that fell out of the period. Uncertainty remains around the valuation of assets, and the extent of the impact from the coronavirus pandemic and lockdowns.*
Infrastructure (S&P Global Infrastructure)	6.4	-0.2	*The infrastructure three year return fell into negative territory over Q3 as the index contracted by 2.9%. It should be noted that the returns of this index can largely driven by currency moves, however the 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.5	9.5	*UK gilt returns remain well above the long term strategic assumed return as yields remain low relative to historic averages. Nominal and index-linked gilts rose slightly over the last quarter.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	1.6	7.0	

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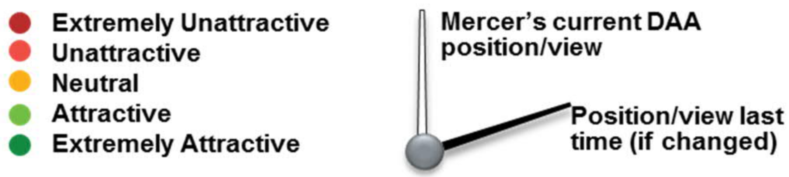
Source: Thomson Reuters Datastream. Returns are in sterling terms.
Strategic assumed returns are from the 2019 strategy review, reflecting the 20 year mean Mercer asset model assumptions as at 31 March 2019.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD Q4 2020



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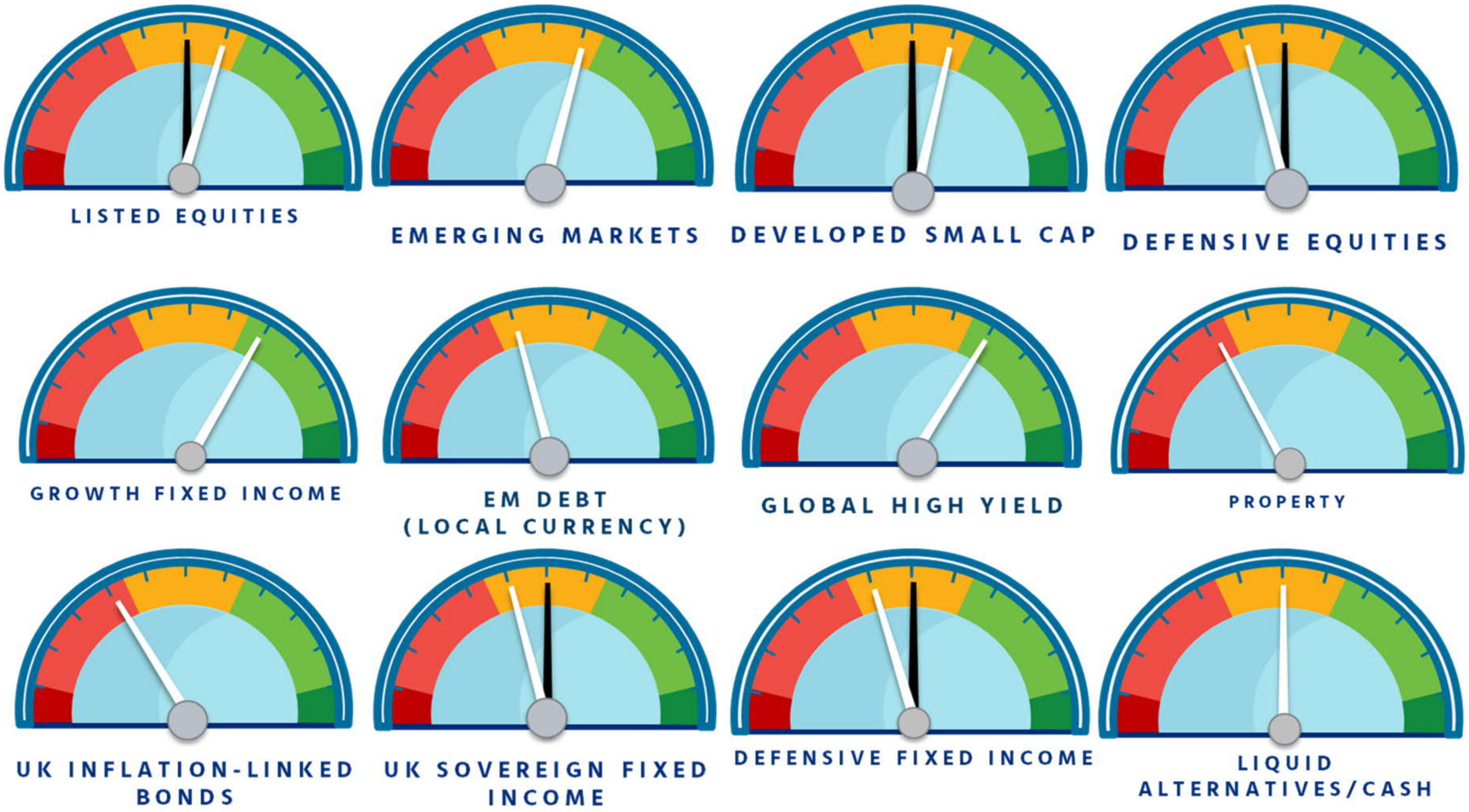
Equities

Growth Fixed Income & Property (Core)

Protective Assets



The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.

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Section 4
Fund Valuations

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Class	Start of Quarter (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)	Benchmark (%)	Ranges (%)	Difference (%)
Global Equity	988,863	601,895	20.0	12.0	12.0	7 - 17	+0.0
Global Sustainable Equity	357,282	494,328	7.2	9.8	10.0	5 - 15	-0.2
Global Low Carbon Equity	596,432	616,893	12.0	12.3	10.0	5 - 15	+2.3
Emerging Market Equity	233,065	246,602	4.7	4.9	5.5	3 - 9	-0.6
Diversified Growth Funds	646,324	643,596	13.0	12.8	10.0	5 - 15	+2.8
Fund of Hedge Funds*	260,004	268,702	5.2	5.3	-	No set range	+5.3
Multi-Asset Credit	293,992	302,521	5.9	6.0	6.0	3 - 9	+0.0
Property	436,675	431,097	8.8	8.6	7.5	5 - 10	+1.1
Secured Income	110,404	109,304	2.2	2.2	10.0	5 - 15	-7.8
Core Infrastructure	338,859	345,475	6.8	6.9	5.0	2.5 - 7.5	+1.9
Renewable Infrastructure	39,925	40,186	0.8	0.8	5.0	2.5 - 7.5	-4.2
Private Debt	-	-	-	-	5.0	0 - 7.5	-5.0
Corporate Bonds	131,554	133,229	2.7	2.6	2.0	No set range	+0.6
LDI & Equity Protection	370,981	625,883	7.5	12.4	12.0	No set range	+0.4
Cash**	150,603	171,951	3.0	3.4	-	0 - 5	+3.4
Total	4,955,110	5,031,696	100.0	100.0	100.0		

Source: Custodian, Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.
*Mandate due to be terminated.
**Valuation includes the ETF and currency instruments

- Secured Income, Renewable Infrastructure and Private Debt mandates are still being drawn down so allocations are below target ranges.
- The above reflects the new strategic benchmark for the Fund, which became effective on 1 April 2020.

FUND VALUATIONS
VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Global Equity	497,323	-290,000	222,761	10.0	4.4
BlackRock	Corporate Bonds	131,554		133,229	2.7	2.6
BlackRock	LDI* & Equity Protection	370,981	+290,000	625,883	7.5	12.4
BlackRock	ETF	45,817		45,975	0.9	0.9
Jupiter	UK Equity	176,404	-170,824	0	3.6	0
Brunel	UK Equity	167,370	-164,542	0	3.4	0
Jupiter	Global Sustainable Equity	13,193	-13,780	0	0.3	0
Brunel	Global Sustainable Equity	0	+494,014	494,014	0.0	9.8
Brunel	Global High Alpha Equity	468,505	-144,899	358,018	9.5	7.1
Brunel	Global Low Carbon Equity	596,432		616,893	12.0	12.3
Schroder	Global Equities	7,508		7,321	0.2	0.1
Brunel	Emerging Market Equity	233,065		246,602	4.7	4.9

Source: Investment Managers, Mercer. Totals may not sum due to rounding.
* End of Quarter value includes the collateral top-up which took place just before quarter-end, funded by the Global Equities component, as part of the inflation hedge ratio increase.

FUND VALUATIONS
VALUATION BY MANAGER

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
Brunel	Diversifying Returns Fund	0	+500,563	493,104	0,0	9.8
Pyrford	DGF	226,872	-226,981	0	4.6	0
Ruffer	DGF	419,452	-270,346	150,492	8.5	3.0
Loomis Sayles	Multi-Asset Credit	293,992		302,521	5.9	6.0
JP Morgan	Fund of Hedge Funds	260,004		268,702	5.2	5.3
Schroder	UK Property	224,450		223,742	4.5	4.4
Partners	Property	212,225	-3,622	207,355	4.3	4.1
Brunel	Secured Income	110,404		109,304	2.2	2.2
IFM	Infrastructure	338,859		345,475	6.8	6.9
Brunel	Infrastructure	39,925		40,186	0.8	0.8
Record Currency Management	Currency Hedging	15,527		19,069	-0.3	0.4
Internal Cash	Cash	136,878	-15,838	120,701	2.8	2.4
Total		4,955,110	-16,095	5,031,696	100.0	100.0

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Source: Investment Managers, Mercer. Totals may not sum due to rounding.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total Fund.

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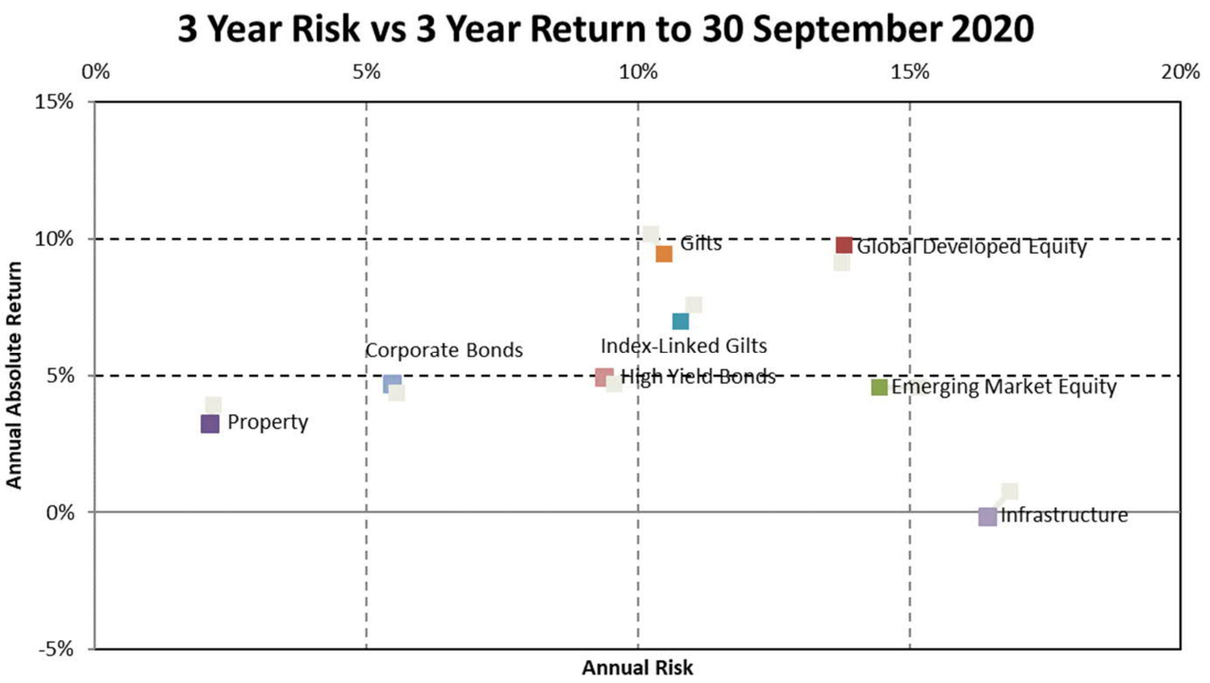
Section 5
Performance Summary

MANAGER MONITORING
RISK RETURN ANALYSIS



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This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2020, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix). We also show the positions as at last quarter, in grey.

Comments

- Equity and Bonds saw increases in observed returns over the three-year period, whilst Property, Infrastructure and Gilts fell back slightly.
- Associated volatilities rose across most asset classes, with Emerging Market Equity and Gilts being the only exceptions.
- These movements in risk and return were less pronounced than prior experience in the first half of 2020.

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 SEPTEMBER 2020

Manager / Asset Class	3 Months			1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Global Equity	3.1	3.2	-0.1	5.3	5.2	+0.1	N/A	N/A	N/A	-	N/A
BlackRock Corporate Bonds	1.3	1.3	0.0	5.9	5.9	0.0	6.9	6.9	0.0	-	Target met
BlackRock LDI	1.0	1.0	0.0	-23.1	-23.1	0.0	-4.7	-4.7	0.0	-	Target met
Jupiter UK Equity	-3.2	-2.9	-0.3	-16.0	-16.6	+0.7	-4.9	-3.2	-1.8	+2	Target not met
Brunel UK Equity	-1.7	-2.9	+1.2	-15.1	-16.6	+1.8	N/A	N/A	N/A	+2	N/A
Jupiter Global Sustainable Equity	4.5	3.5	+1.0	14.2	5.8	+7.9	N/A	N/A	N/A	+2-4	N/A
Brunel Global High Alpha Equity	7.3	3.3	+3.9	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Brunel Passive Low Carbon Equity	3.4	3.5	-0.1	6.2	6.3	-0.1	N/A	N/A	N/A	-	N/A
Brunel Emerging Market Equity	5.8	4.8	+1.0	N/A	N/A	N/A	N/A	N/A	N/A	+2-3	N/A
Ruffer DGF	0.9	1.3	-0.4	7.2	5.6	+1.5	3.3	5.7	-2.3	-	Target not met
Loomis Sayles MAC	2.9	1.0	+1.9	2.1	4.5	-2.3	2.3	4.7	-2.3	-	Target not met
JP Morgan FoHF	4.5	0.8	+3.6	13.0	4.6	+8.0	6.4	5.0	+1.3	-	Target met
Schroder UK Property	0.4	0.2	+0.2	-2.6	-2.8	+0.2	2.9	2.6	+0.3	+1	Target not met
Partners Overseas Property *	3.4	2.5	+0.9	-0.6	10.0	-9.7	4.0	10.0	-5.4	-	Target not met
Brunel Secured Income	-1.0	0.5	-1.5	-2.4	0.6	-3.0	N/A	N/A	N/A	+2	N/A
IFM Core Infrastructure**	1.9	0.8	+1.2	-3.2	4.5	-7.4	11.7	4.7	+6.7	-	Target met
Brunel Renewable Infrastructure	0.1	0.5	-0.4	10.5	0.6	+9.8	N/A	N/A	N/A	+4	N/A

- Source: Investment Managers, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan and Partners , whose performance is shown in local currency terms.**
- **IFM returns are in GBP terms after the manager switched to GBP reporting in January. Historical USD performance has been converted to GBP.
- **Returns are net of fees.**
- In the relative performance columns, returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.
- In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.
- *Performance to 30 June 2020 as this is the latest date that this is available.

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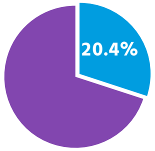
Section 5
Manager Performance



BLACKROCK – PASSIVE MULTI-ASSET & LDI (POOLED EQUITY & QIF)
£ 1,027.8M END VALUE (£1,045.7M M START VALUE) (Inc. Equity protection strategy)

Item Monitored		Outcome
Mercer Rating	●	A for Passive Equity (no change); ESGp2 A for Buy-and-Maintain Credit (no change) A for LDI (no change)
Performance Objective *In line with the benchmark*	●	Portfolios performed broadly in line with their benchmarks over three years

Manager Research and Developments

- Equities returned 3.1% over the third quarter and the corporate bond portfolio returned 1.3%.
- The LDI portfolio grew by 1.0% as inflation nudged up over the quarter.
- Blackrock holdings were rebalanced over the quarter to begin implementation of an increase in the inflation hedge ratio c. 35%.

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Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

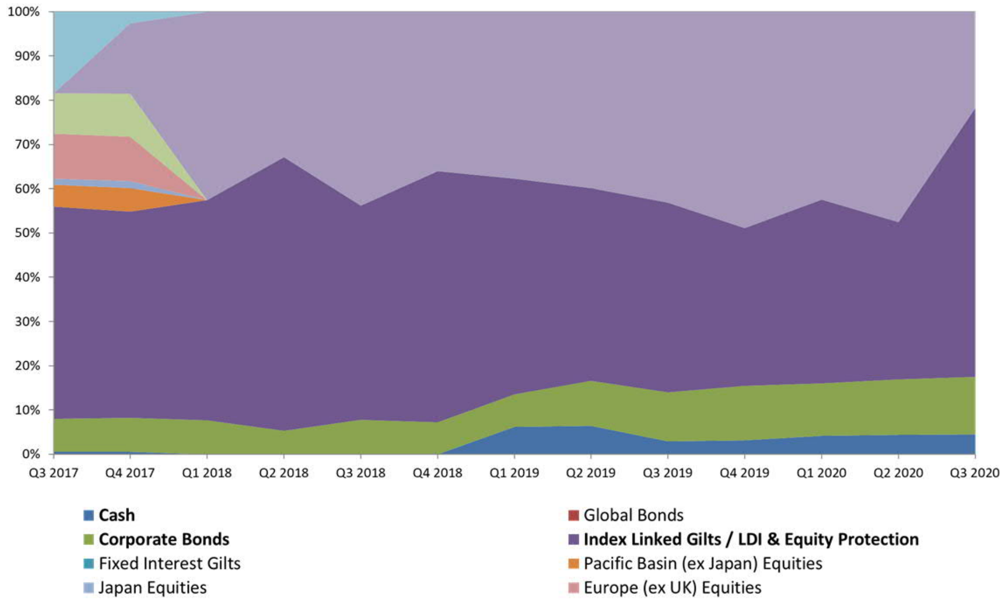
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

Performance

	Quarter (%)		1-Year (%)		3-Year (% p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equity	3.1	3.2	5.3	5.2		
Corporate Bonds*	1.3	1.3	5.9	5.9	6.9	6.9
LDI**	1.0	1.0	-23.1	-23.1	-4.7	-4.7

*Corporate Bond fund and benchmark reflects legacy holdings prior to 31 March 2019 and Buy and Maintain Credit holdings thereafter. Benchmark return assumed equal to mandate.
** Benchmark return for LDI performance assumed equal to mandate.
Equity protection strategy performance is not reflected.

Asset Allocation



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JUPITER ASSET MANAGEMENT – UK EQUITY (SRI) (SEGREGATED) £0M END VALUE* (£176.4M START VALUE)

0.0%

Item Monitored		Outcome
Mercer Rating	● (amber)	B (no change over period under review); ESG2
Performance Objective *Benchmark +2% p.a.*	● (red)	Underperformed benchmark by 1.8% p.a. over three years
Tracking error was 4.0% p.a. – *source: Jupiter*		Number of stocks: 51

Manager Research and Developments

- Jupiter contracted by 3.2% over Q3 and underperformed its benchmark by 0.3%.
- Exposures to financials, transport and telecoms didn't fare well for the portfolio.
- The mandate outperformed its benchmark over the year period, but underperformed over three years. It has also fallen short of its performance objective over all of these recent time horizons.
- The mandate was terminated at the end of Q3 to fund the Brunel Global Sustainable Equities mandate.

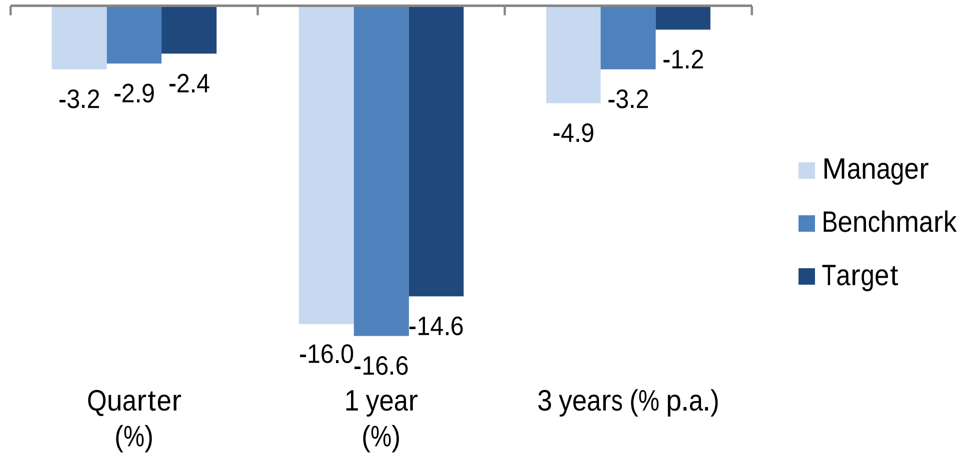
Reason for investment

To provide asset growth as part of a diversified equity portfolio and to provide a specific SRI allocation

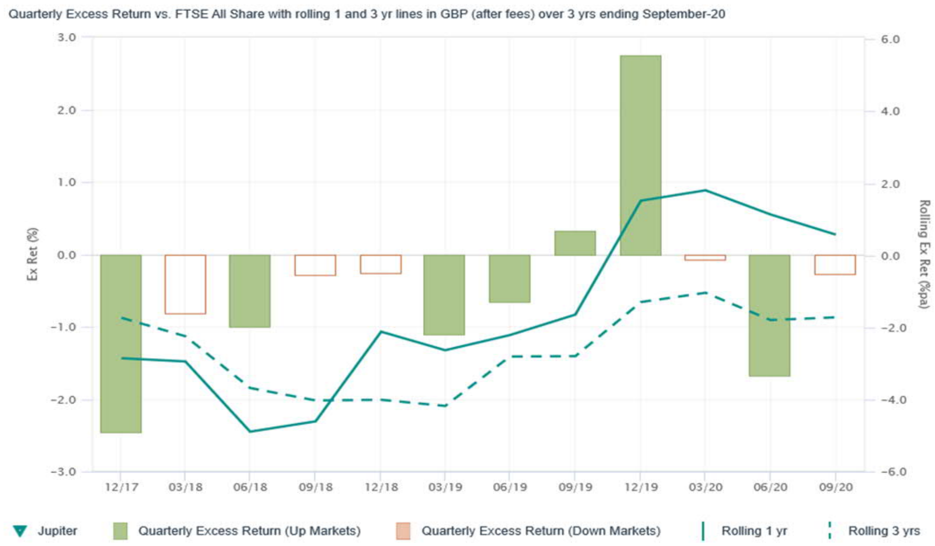
Reason for manager

- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns



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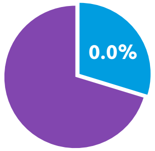

BRUNEL – ACTIVE UK EQUITY
£0M END VALUE* (£167.4M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	N/A
Performance Objective *Benchmark +2% p.a.*	●	Has underperformed its target over the year.

Manager Research and Developments

- Mandate was initiated in November 2018.
- The mandate contracted by 1.7% over the quarter as UK equities struggled. This was ahead of its FTSE All-Share Index benchmark however by 1.2%.
- The mandate also outperformed the benchmark over the one year period, but fell just short of its performance objective.
- The mandate was terminated at the end of Q3 to fund the Brunel Global Sustainable Equities mandate.

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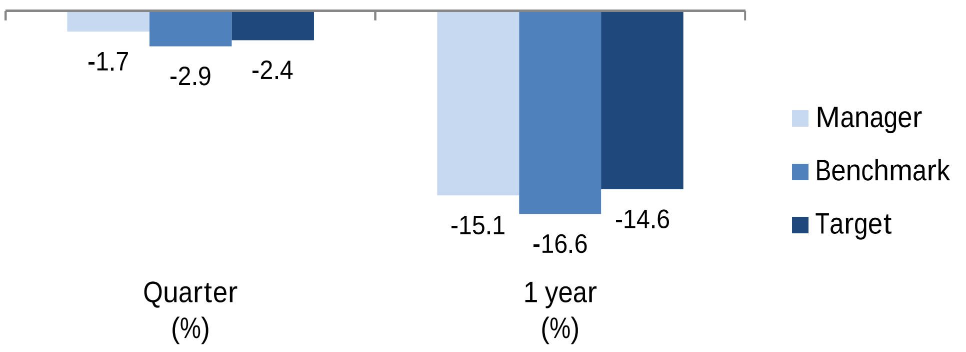
Reason for investment

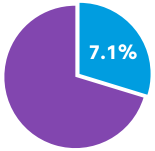
To provide asset growth as part of a diversified equity portfolio

Reason for manager

- Investment made via the Brunel pool

Performance





BRUNEL – GLOBAL HIGH ALPHA EQUITY
£358.0M END VALUE (£468.5M START VALUE)

Item Monitored	Outcome
Mercer Rating	N/A
Performance Objective *Benchmark +2-3% p.a.*	Too early to determine

Manager Research and Developments

- Mandate was initiated in November 2019.
- The mandate returned 7.3% over the quarter, which was modestly ahead of its benchmark and performance objective.
- Whilst it is too early to confirm its relative performance over a one year period, the mandate has also outperformed modestly since its inception.

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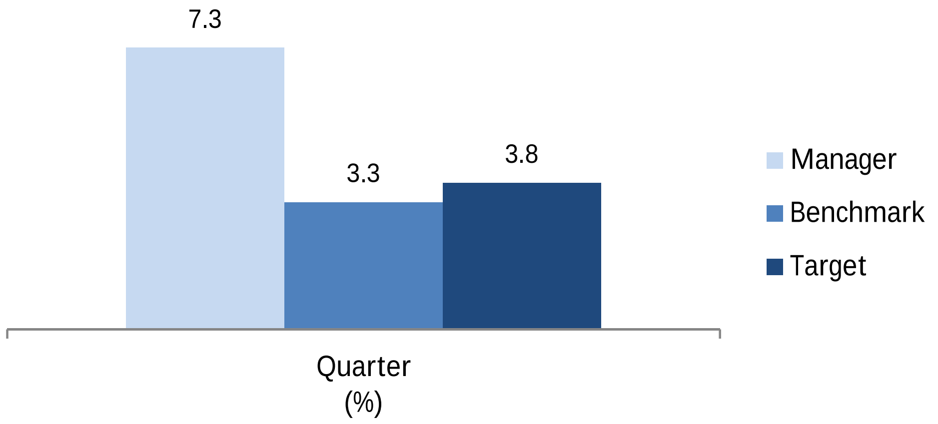
Performance

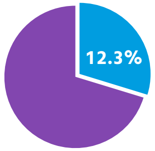


Reason for investment

To provide global equity market exposure together with excess returns from accessing leading managers.

Reason for manager

- Investment made via the Brunel pool



BRUNEL – PASSIVE GLOBAL LOW CARBON EQUITY
£616.9M END VALUE (£596.4M START VALUE)

Item Monitored		Outcome
Mercer Rating	● (grey)	N/A
Performance Objective *In line with the benchmark*	● (green)	Broadly in line with its benchmark over the year

Manager Research and Developments

- Mandate was initiated in July 2018. LGIM is the underlying manager.
- The fund returned 3.4% over Q3 2020. and 6.2% over the one year period.
- These were broadly in line with its MSCI World Low Carbon Index benchmark as would be expected.

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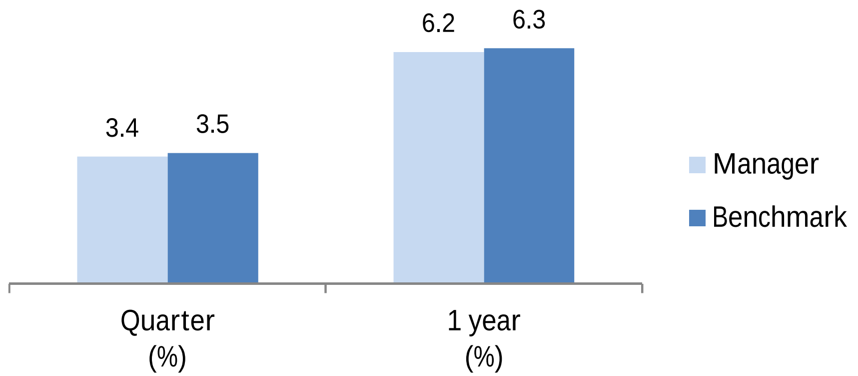
Reason for investment

To provide asset growth as part of a diversified equity portfolio and to provide a decarbonised equity portfolio.

Reason for manager

- Investment made via the Brunel pool

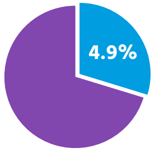
Performance



Sector Allocation

Information Technology	21.9
Health Care	13.8
Financials	12.5
Consumer Discretionary	11.8
Industrials	11.1
Communication Services	8.8
Consumer Staples	8.6
Materials	3.8
Real Estate	3.0
Other	4.7

Source: LGIM. As at 30 September 2020



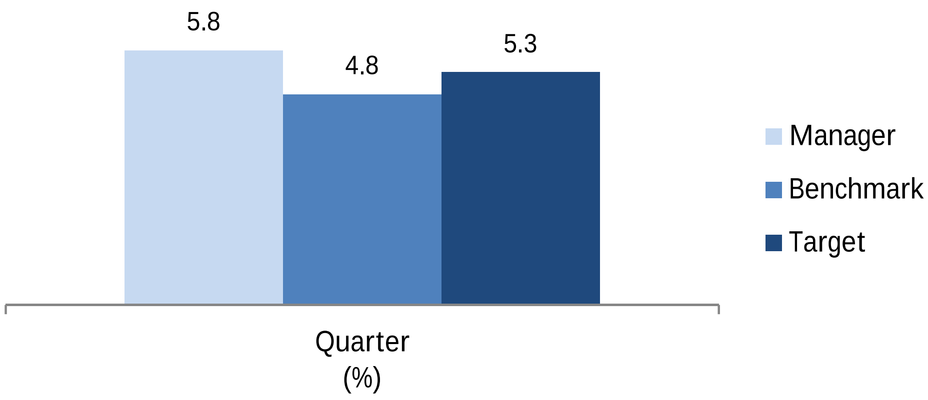
BRUNEL – EMERGING MARKET EQUITY
£246.6 END VALUE (£233.1M START VALUE)

Item Monitored	Outcome	
Mercer Rating	●	N/A
Performance Objective *Benchmark +2-3% p.a.*	●	Too early to determine

Manager Research and Developments

- Mandate was initiated in October 2019.
- It returned 5.8% over the quarter, which was ahead of its MSCI Emerging Markets Index benchmark, and also its performance objective.

Performance



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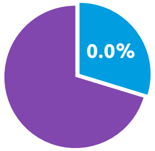
Reason for investment

To provide exposure to emerging market equities, together with excess returns and enhanced risk control from accessing leading managers.

Reason for manager

- Investment made via the Brunel pool



JUPITER ASSET MANAGEMENT – GLOBAL SUSTAINABLE EQUITY (POOLED) £0M END VALUE* (£13.2M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	●	Has achieved its objective over the year to 30 September 2020

Manager Research and Developments

- Mandate was initiated in June 2018.
- The fund returned 4.5% over Q3, outperforming its benchmark by 1.0%.
- It also comfortably outperformed its benchmark and performance objective over the one year period to 30 September.
- The mandate was terminated at the end of Q3 to fund the Brunel Global Sustainable Equities mandate.

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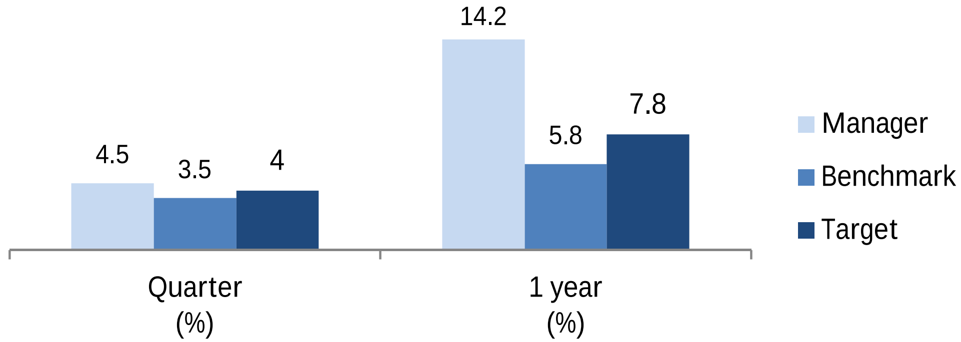
Reason for investment

Modest initial allocation to provide an indication of the typical performance of sustainable equities.

Reason for manager

- Preference for global sustainability approach rather than negative screen approach due to integration of ESG factors into investment process
- Global approach provides access to a large universe of stocks to select from
- Clear investment philosophy and portfolio construction reflects team's highest conviction ideas

Performance



Sector Allocation

Industry Allocation(%)	
Industrials[1]	34.0
Financials	13.6
Health Care	11.9
Consumer Goods	10.6
Technology	10.6
Basic Materials	5.7
Utilities	3.0
Consumer Services	2.7
Telecommunications	0.8
	92.9
Cash	**7.1**
Total	**100.0**

[1]Includes general electronic equipment, medical equipment and consumer financial stocks (19.57%).

Source: Jupiter. As at 30 September 2020.

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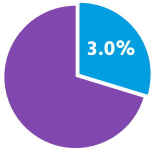

RUFFER – DGF (POOLED)
£150.5M END VALUE (£419.5M START VALUE)

Item Monitored		Outcome
Mercer Rating	🟢	A (no change over period under review); ESG2
Performance Objective *Cash +5% p.a.*	🔴	Underperformed target by 2.3% p.a. over the year

Manager Research and Developments

- Ruffer delivered a performance of 0.9% over the quarter, short of its objective of 1.3%.
- The portfolio continued to benefit from its gold-related holdings, driven by a combination of falling US real bond yields and a declining US dollar.
- Inflation-linked bonds also bolstered performance again, as a rebuild in inflation expectations took real US bond yields to record lows.
- Performance was curtailed by the portfolio's credit protections, due to the wider rise in risk appetite over the quarter.
- The mandate did outperform its objective over the one year period , but has underperformed over its first full three year period by 2.3%.
- Over half of Ruffer holdings (c. £270m) were transferred to fund the new Brunel Diversified Returns Fund incepted in July. The Pyrford DGF was also redeemed to fund this new mandate.

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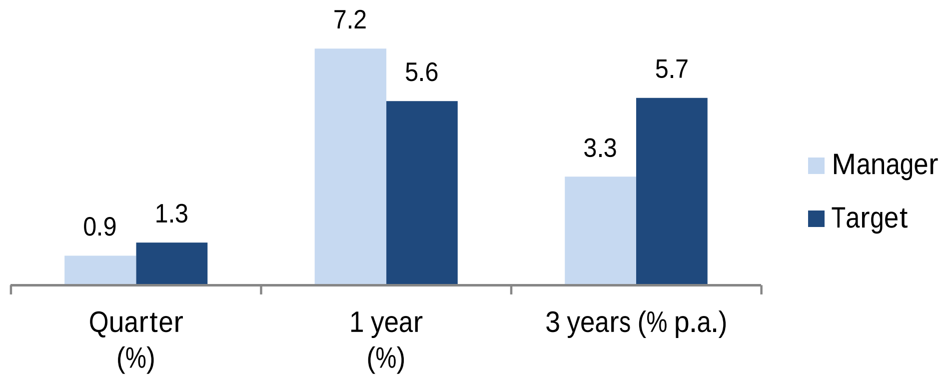
Reason for investment

To provide equity like return over the long term but with a lower level of volatility

Reason for manager

- Experience and insights of the investment team
- Focus on capital preservation
- Dynamic allocation between risk and defensive assets depending on market conditions

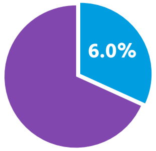
Performance



Sector Allocation

	%
Non-UK index-linked	26.9
Long-dated index-linked gilts	11.2
Gold and gold equities	9.9
Illiquid strategies and options	8.3
Short-dated bonds	6.8
Cash	4.2
Index-linked gilts	2.1
UK equities	11.2
Japan equities	8.2
Europe equities	4.8
North America equities	4.6
Asia ex-Japan equities	1.9

Source: Ruffer. As at 30 September 2020.



LOOMIS SAYLES – MULTI-ASSET CREDIT (POOLED)
£302.5M END VALUE (£294.0M START VALUE)

Item Monitored		Outcome
Mercer Rating	🟢	A (no change over period under review); ESG3
Performance Objective *Cash +4% p.a.*	🔴	Underperformed by 2.3% over the year

Manager Research and Developments

- Loomis delivered a performance of 2.9% over the quarter, above it's cash objective of 1.0%.
- Despite this it remained below its performance objective over the one year period by 2.3%, due to the ground lost over the start of the 2020.
- Spreads tightened for investment grade and high yield corporate bonds during the third quarter, and sectors which did well in both of these components included consumer cyclicals and financials.
- Emerging market assets performed well again, added by energy price stability and a softer US dollar, though the manager has subsequently pared back exposure in light of possible risk factors.
- The loan market and securitized assets components of the portfolio also continued a trend of positive momentum.
- The overall duration of the portfolio decreased over the quarter to 6.2 years.

- Just after quarter-end, Loomis informed us that CIO Jae Park will retire in March 2021. David Waldman, who has been Deputy CIO for the past seven years, will succeed Park as CIO upon Park's retirement. We view Waldman as a strong successor based on his three decades of experience, his tenure at Loomis and evidence of increasing responsibilities in leadership roles at the firm.

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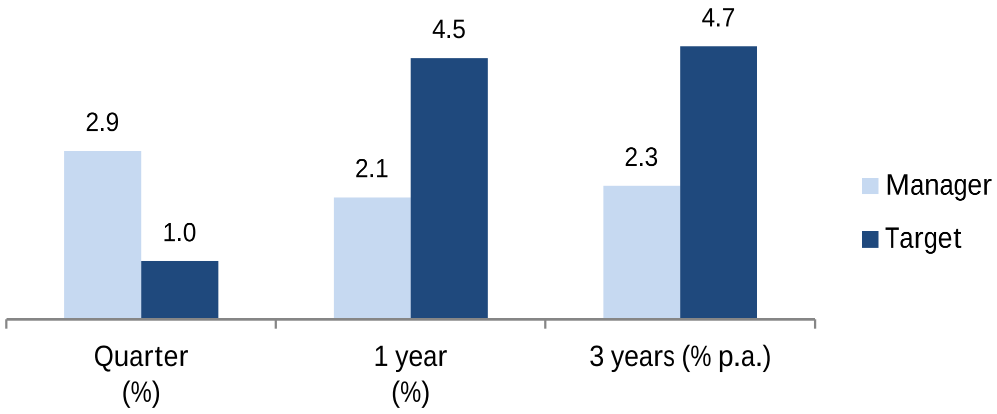
Reason for investment

To be a diversified return seeker within the Fund's fixed income portfolio

Reason for manager

- Core low to moderate risk Multi-Asset Credit option
- Depth and breadth of fundamental credit analysis

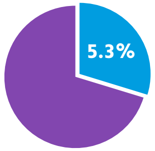
Performance



Sector Allocation

Sector Allocation	Fund 30/06/2020 %	Fund 30/09/2020 %
High Yield Credit	31.7	27.8
Investment Grade Credit	22.0	23.3
Emerging Markets Debt	33.1	36.5
Securitised	5.8	5.2
Banks Loans	2.5	0.1
FX/Dur Mgmt/Cash	4.9	7.1

Source: Loomis Sayles.
As at 30 September 2020.



JP MORGAN – FUND OF HEDGE FUNDS
£268.7M END VALUE (£260.0M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	R ; ESG4
Performance Objective *Cash +3% p.a.*	●	Above target over three years in USD.

Item	
Number of funds	31 (as at 30 September 2020)

Strategy	Contribution to Performance over the Quarter in USD (%)
Relative Value	1.47
Opportunistic/Macro	0.74
Long/Short Equities	2.19
Merger Arbitrage/ Event Driven	0.04
Credit	0.49
Total	4.51 (including cash and fees)

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In GBP terms, the mandate return was -0.1% versus a benchmark return of 0.8%

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

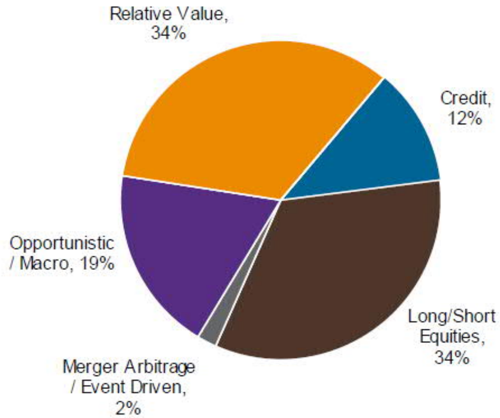
Reason for manager

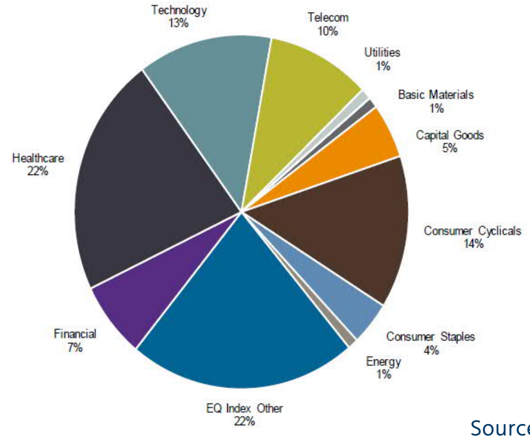
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (USD)

Last Quarter	4.5 %	Target	0.8%
Last Year	13.0%	Target	4.6%
Last 3 Years (p.a.)	6.4%	Target	5.0%

Portfolio Composition and Equity Sector Allocation





Source: JP Morgan.
As at 30 September 2020.

HEDGE FUND COMMENTARY – Q3 2020

- The third quarter proved constructive for hedge funds despite what was a relatively wild ride for the broad markets through the quarter.
- Equity-oriented strategies led the way as dispersion remained healthy, providing substantial opportunity to add value on both longs and shorts.
- Overall, the rising tide lifted nearly all boats with the exception of systematic macro, for which sharp intra-quarter reversals proved difficult to traverse, despite some fairly profound trends.
- Stressed/distressed credit rebounded nicely, but remained a relative laggard despite the rise in defaults. Likewise, the higher leveraged relative value strategies continue to lag in the recovery.
- Hedge funds are uniquely well-positioned to capitalize on this opportunity, as was largely realized in Q3 and despite the continued impacts of massive government and central bank activity, the opportunity set available to hedge funds remains attractive.

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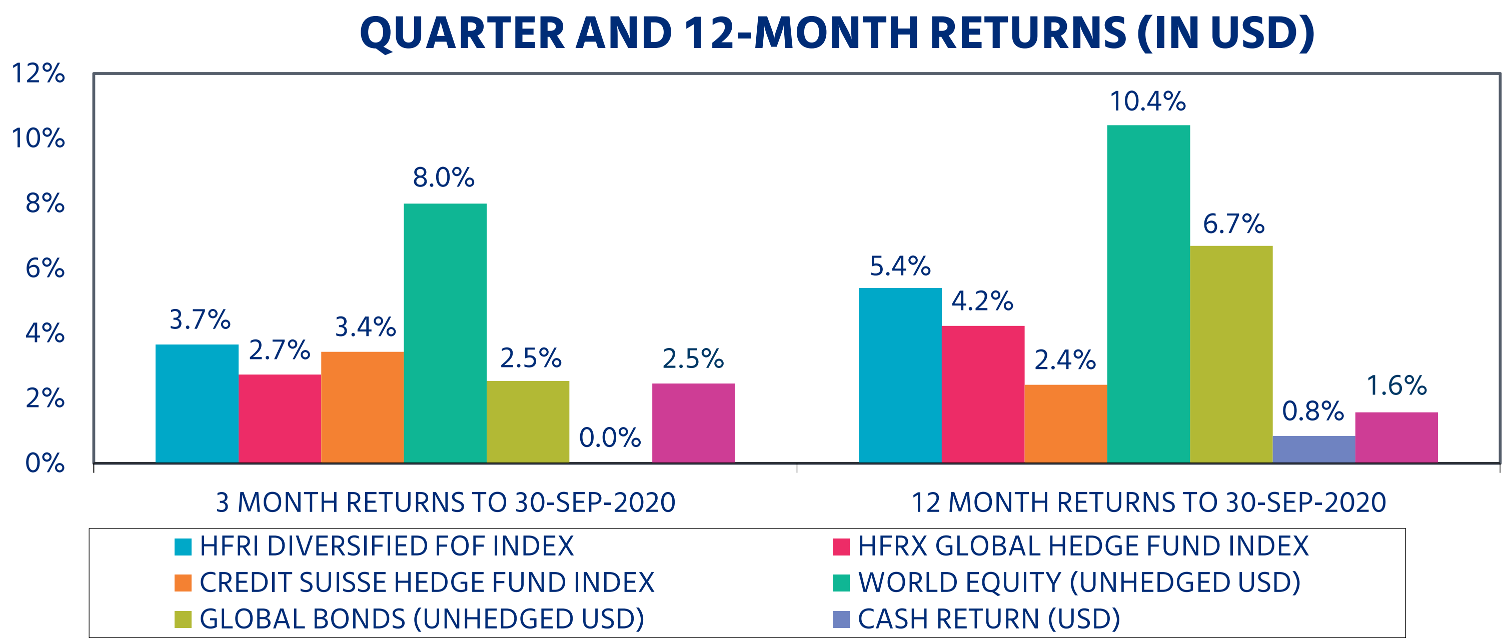

Source: Hedge Fund Research Inc., Credit Suisse Hedge Index LLC, Thomas Reuters Datastream and Federal Reserve.
Includes the following indices: FTSE World, JP Morgan Global Bonds All Maturities.

HEDGE FUND COMMENTARY – Q3 2020

Relative Value (34%)

- Relative value strategies performed well, posting gains across all sub segments for the second straight quarter, but continue to lag.
- We have highlighted the impacts that weakened hands could have within this space. This theme appears to be playing out as capital has preferred the more 'obvious' opportunities.

Long/Short Equities (34%)

- Long/short equity generated material security selection alpha in Q3, as the "winners/losers theme" reverberated through equity markets.
- Stock correlations fell from their previously-elevated levels, indicating a supportive, bi-directional stock-picking environment, and a large portion of the hedge fund universe was able to capitalize on this opportunity. Dispersion of manager performance remained elevated as well.
- The quarter wasn't without its fireworks as a particularly violent stretch occurred with the VIX. It appears that long/short equity funds maintained exposures or even leaned into this activity; so far to their benefit.
- The general theme of growth/momentum stocks outperforming value/quality stocks continued. Likewise, alpha generation in Asia has continued to be strong year-to-date.

Opportunistic / Macro (19%)

- Macro strategies overall posted solid results, and (discretionary) macro remains the top performing strategy year-to-date; however, dispersion between discretionary and systematic strategies is material.
- Despite some fairly strong trends within the quarter (weak dollar, strong momentum, lower short-rates), the volatility within these trends proved quite difficult for systematic and trend-following strategies to capture. Discretionary managers were able to successfully trade around this volatility.
- Equity volatility remains elevated, despite declining during the quarter. The elevated "vol of vol" may continue to be a factor for markets through the conclusion of the US Presidential election. The consensus expectation of protracted near-zero interest rates has reduced U.S. interest rate volatility to secular lows.

Merger Arbitrage / Event Driven (2%)

- Event-driven strategies, on average, continued to enjoy a healthy rebound in Q3, although they remain the laggard hedge fund strategy year-to-date.
- Not surprisingly, more directional areas such as activism and special situations continued to lead in the rally. Merger arbitrage and distressed strategies, which were hard-hit in the first quarter, lagged in the rebound and continue to have modest losses year-to-date.
- Merger arbitrage strategies benefitted as several strategic deals closed, helping lead to general spread tightening despite the late quarter deal concerns causing LVMH to try to walk away from their acquisition of Tiffany. Deal volume came roaring back following the Q2 decline.
- Distressed strategies posted gains in Q3 but continued to lag other strategies

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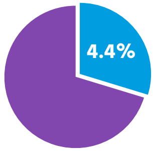
Returns are in USD. Source: Credit Suisse Hedge Index LLC.
The percentages are relative to JP Morgan exposure.



SCHRODER – UK PROPERTY FUND OF FUNDS
£223.7M END VALUE (£224.5M START VALUE)

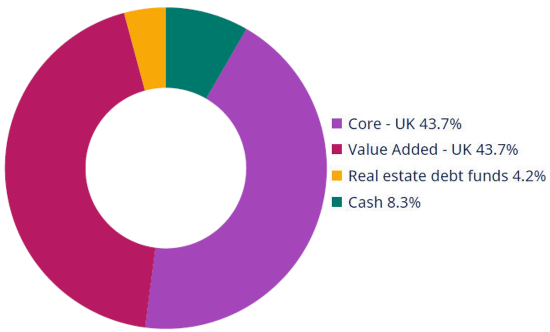
Item Monitored		Outcome
Mercer Rating	●	B (no change over period under review); ESG3
Performance Objective *Benchmark +1% p.a.*	●	Below performance objective over three years

Manager Research and Developments

- The fund returned 0.4% over Q3, as there was a partial recovery in investment transactions. Valuers were also able to remove the 'Material Uncertainty' caveats from the majority or assets.
- Industrials and niche property markets such as social supported housing and retirement living are faring relatively well, though retail and leisure are continuing to suffer, particularly given the re-introduction of restrictions post-quarter end.
- There were two sales over the quarter, the main one being the final redemption proceeds of c. £2.7m received from Standard Life Pooled Pension Property Fund
- The fund outperformed its benchmark over the quarter, and also the one and three year periods, though it has underperformed its objective over all of these time horizons.

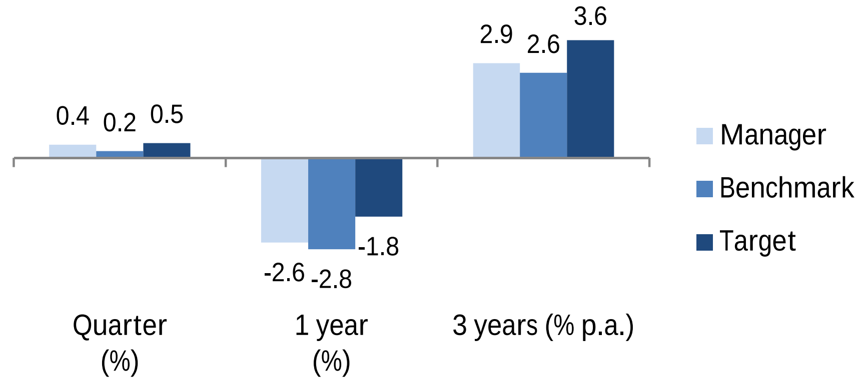
Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
Industrial Property Investment Fund	17.6
Metro Property Unit Trust	10.2
Hermes Property Unit Trust	9.7
BlackRock UK Property Fund	9.1
GBP Cash	8.3

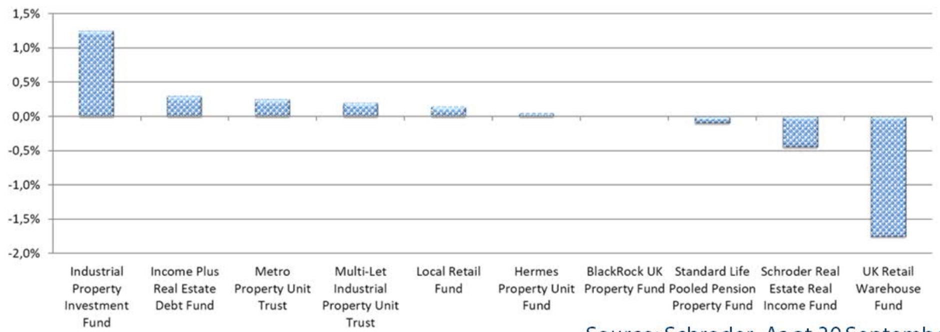


Source: Schroder. As at 30 September 2020

Performance



Top 5 Contributing and Detracting Funds over 12 Months



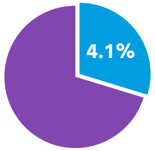
Source: Schroder. As at 30 September 2020

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Demonstrable track record of delivering consistent above average performance
- Team though small is exclusively dedicated to UK multi-manager property management but can draw on extensive resources of Schroder's direct property team
- Well structured and research orientated investment process



PARTNERS – OVERSEAS PROPERTY
£207.4M END VALUE (£212.2M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review); ESG4
Performance Objective *IRR of 10% p.a.*	●	IRR since inception to 30 June 2020 at 6.1% p.a. (in local currency) is below target of 10% p.a.

Manager Research and Developments (Q2 2020)

- The portfolio delivered a net return of 1.7% over Q2 2020 for USD programmes in local currency, and 3.6% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, such as the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 30 June 2020 at 6.1% p.a. (in local currency) is below their target of 10% p.a..
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

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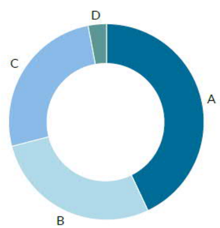
Portfolio update to 30 June 2020

	Current period		Since inception			
Program	Net contributions	Distributions	Net contributions	Distributions	Net asset value	Net return
PG Asia-Pacific & Emerging Markets Real Estate 2009, L.P.	0	0	17'467'664	17'085'048	4'854'200	4.7%
PG Asia-Pacific Real Estate 2016, L.P. Inc.	3'241'542	0	17'175'017	5'066'685	16'499'286	16.2%
PG Direct Real Estate 2011, L.P. Inc.	-1'465	0	11'424'808	12'414'816	4'485'120	8.4%
PG Distressed U.S. Real Estate 2009 S.C.A., SICAR	0	0	14'076'841	19'040'050	2'020'898	9.2%
PG Global Real Estate 2008 S.C.A., SICAR	0	0	30'939'953	34'328'921	4'049'154	4.0%
PG Global Real Estate 2011 S.C.A., SICAR	-2'730	0	25'077'248	27'416'912	8'740'583	7.8%
PG Global Real Estate 2013 S.C.A., SICAR	5'328'595	0	110'890'394	8'245'941	142'273'759	8.9%
PG Real Estate Income 2014 (EUR), L.P. Inc.	0	0	21'785'730	14'474'582	13'085'453	6.6%
PG Real Estate Secondary 2009 (Euro) S.C.A., SICAR	0	0	19'619'025	21'802'764	8'823'326	8.6%
PG Real Estate Secondary 2013 (EUR), S.C.A. SICAR	-1'963	0	11'704'737	8'889'145	10'527'341	15.8%
Total	8'563'978	0	280'161'417	168'764'864	215'359'121	7.8%

Source: Partners. Figures in GBP

Geographical and Investment type splits as at 30 June 2020



Investments by regional focus

A Europe	43%	C Asia-Pacific	26%
B North America	28%	D Rest of World	3%

Investments by transaction type

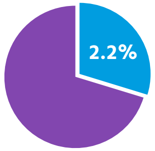
A Secondary	40%	C Direct	25%
B Primary	35%		

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Depth of experience in global property investment and the resources they committed globally to the asset class
- The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements



BRUNEL – SECURED INCOME
£109.3M END VALUE (£110.4M START VALUE)

Item Monitored		Outcome
Mercer Rating	● (grey)	N/A
Performance Objective *CPI +2.0% p.a.*	● (red)	Underperformed target by 5.0% p.a. over the year

Manager Research and Developments

- Mandate was initiated on 15 January 2019. Aberdeen Standard and Greencoat are the underlying managers, although more will be added over time.
- The strategy contracted by 1.0% over Q3 2020, which was 2.0% below its performance objective.
- It was also down over the one year period and below its objective by 3.0%.
- The mandate is still in its early stages of being funded.

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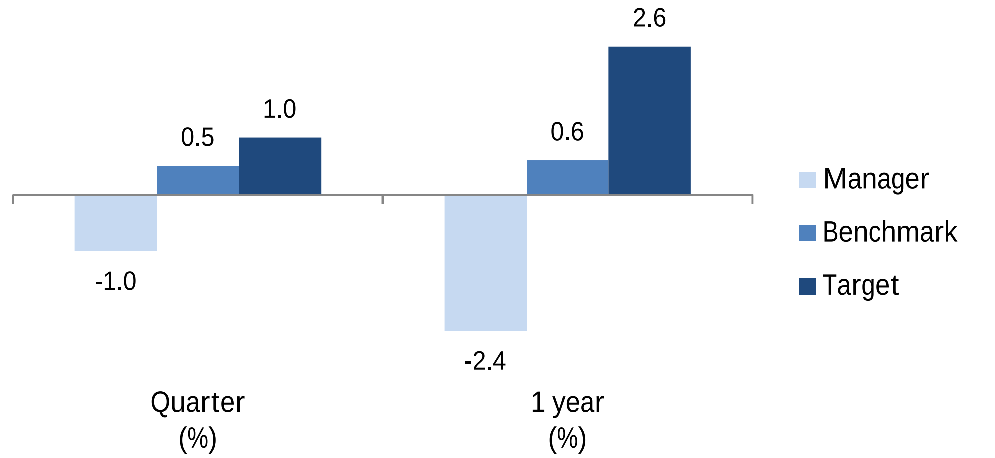
Performance

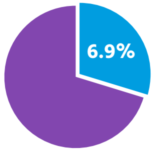


Reason for investment

To provide long-term income as part of a diversified portfolio

Reason for manager

- Investment made via the Brunel pool



IFM – CORE INFRASTRUCTURE (POOLED) £345.5M END VALUE (£338.9M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review); ESG2
Performance Objective *Cash +2.5% p.a.*	●	Outperformed objective by 6.7% p.a. over the three year period (in GBP)

Item	
Number of holdings	17

Manager Research and Developments

- Over the quarter the fund returned 1.9%, against Avon's performance objective of 0.8% (cash + 2.5% p.a.).
- It underperformed over the one year period, given the difficulties at the start of 2020, but has outperformed over the three year period by 6.7% p.a.
- During the quarter, Freeport Train 2 distributed $544.5 million to Buckeye Partners. These proceeds will be partially distributed to the Fund in Q4 2020, and partially retained at Buckeye Partners to reduce leverage ratios. In addition, the Fund repaid the outstanding $650 million drawn on the Fund liquidity facility, initially drawn to assist in funding the Buckeye acquisition.

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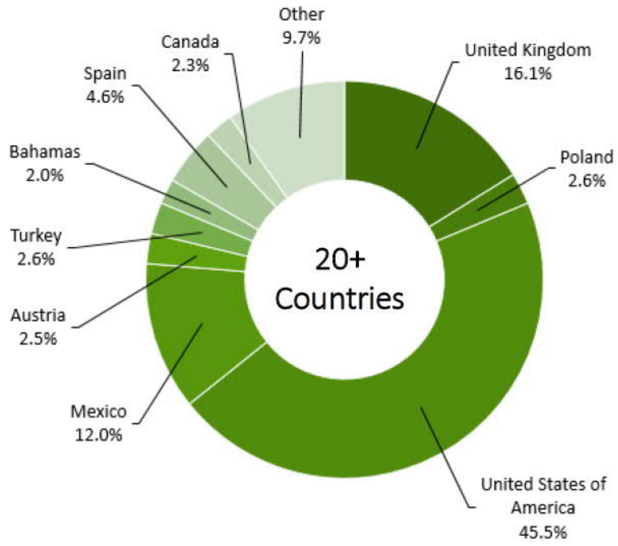
Reason for investment

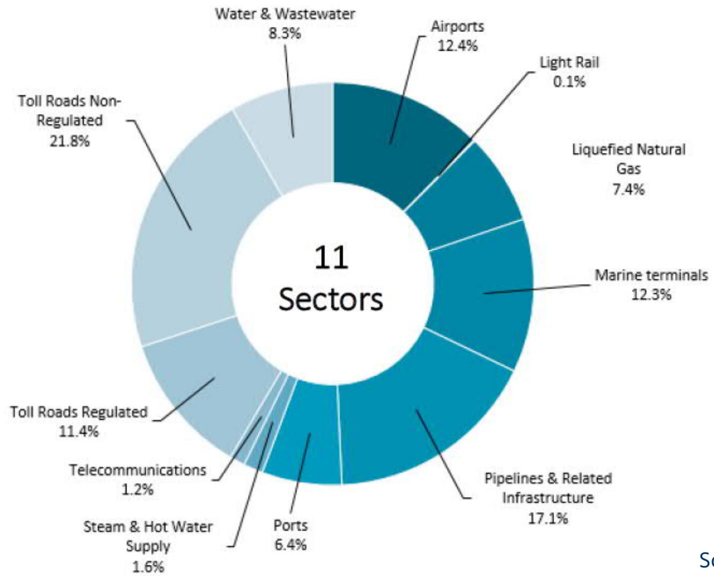
To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Invests in core infrastructure assets in countries with established regulatory environments and strong rule-of-law
- Seeks to invest in assets with strong market positions, predictable regulatory environments, high barriers to entry, limited demand elasticity and long lives

Geographical and Sub-Sector Allocation





Source: IFM.
As at 30 September 2020.

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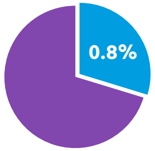
BRUNEL – RENEWABLE INFRASTRUCTURE
£40.2M END VALUE (£39.9M START VALUE)



Item Monitored		Outcome
Mercer Rating	●	N/A
Performance Objective *CPI +4.0% p.a.*	●	Outperformed objective by 5.8% p.a. over the year

Manager Research and Developments

- Mandate was initiated on 2 January 2019. NTR and Mirova are the underlying managers.
- The fund underperformed its objective over the quarter by 1.4%, but outperformed by 5.9% over the one year period.

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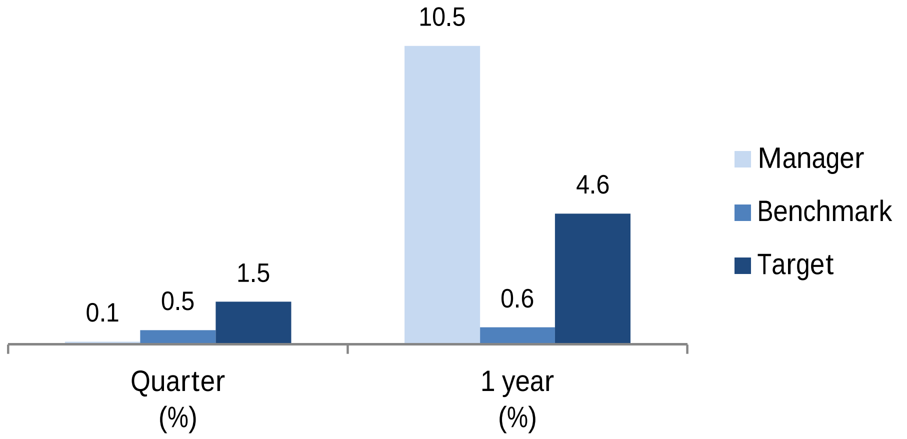
Performance

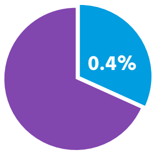


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Investment made via the Brunel pool



RECORD – CURRENCY HEDGING (SEGREGATED)
£19.1M END VALUE (-£16.6M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *N/A*	●	In line with the 50% hedging position

Manager Research and Developments

Sterling strengthened against the US dollar over the quarter (by 4.6%) which was more driven by US dollar weakness across the board as investors priced in lower rates for longer and higher inflation in the US. Sterling also appreciated against the Yen (by 2.3%) and was broadly flat (up by 0.2%) against the Euro. Sentiment was boosted by a rebound in UK economic activity over summer and markets shrugged off the continued stalemate over a trade deal with the EU that was exacerbated by the UK endeavoring to reopen and renegotiate the Withdrawal Agreement.

The Fund's policy is to passively hedge 50% of currency exposure on developed global equities (dollar, euro and yen), and 100% on the hedge fund, global property and infrastructure mandates.

Performance for each of these separate accounts is shown to the right; as expected, performance for the passive mandate has been broadly in line with the (informal) 50% benchmark; where this differs from the movement in currency rates this relates to the timing of the implementation trades (2pm) and the currency rates quoted (4pm fix).

Reason for investment

To manage the volatility arising from overseas currency exposure, whilst attempting to minimise negative cashflows that can arise from currency hedging

Reason for manager

- Straightforward technical (i.e. based on price information) process
- Does not rely on human intervention
- Strong IT infrastructure and currency specialists

Currency Hedging Q3 2020 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	1,000,702,661	1,065,826,246	(4.42%)	2.06%	2.05%	(2.22%)
EUR	158,243,278	171,250,102	(0.21%)	0.16%	0.18%	(0.01%)
JPY	119,212,146	129,219,089	(2.29%)	1.05%	1.10%	(1.03%)
Total	1,278,158,085	1,366,295,437	(3.70%)	1.73%	1.73%	(1.83%)

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	264,274,852	259,246,424	(4.42%)	4.20%	4.23%	(0.06%)

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	27,390,442	25,713,655	(4.42%)	4.20%	4.22%	(0.07%)
EUR	182,442,002	182,403,184	(0.21%)	0.32%	0.38%	0.23%
Total	209,832,444	208,116,839	(0.76%)	0.83%	0.88%	0.19%

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Appendix 1
Summary of Mandates

SUMMARY OF MANDATES

Manager	Mandate	Benchmark/Target	Outperformance Target (p.a.)
BlackRock	Global Equity (passive)	MSCI World	-
Brunel	Global High Alpha Equity	MSCI World	+2 -3%
Brunel	Global Sustainable Equity	MSCI AC World	+2%
Brunel	Global Low Carbon Equity (passive)	MSCI World Low Carbon	-
Brunel	Emerging Market Equities	MSCI Emerging Markets	+2 -3%
Ruffer	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Brunel	Diversified Returns Fund	SONIA	+4-5%
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	Net IRR of 10% p.a. (local currency)	-
Brunel	Secured Income	CPI + 2% p.a.	-
IFM	Core Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Renewable Infrastructure	CPI + 4% p.a.	-
Brunel	Private Debt	3 Month LIBOR + 4% p.a.	-
BlackRock	Buy-and-Maintain Corporate Bonds	Return on bonds held	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Record	Passive Currency Hedging	N/A	-
BlackRock	Exchange-Traded Fund (ETF)	Bespoke benchmark to reflect total Fund allocation	-
Cash	Internally Managed	7 Day LIBID	-

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Appendix 2
Market Statistics Indices

MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Global Developed Equity	FTSE AW Developed
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Infrastructure	S&P Global Infrastructure
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

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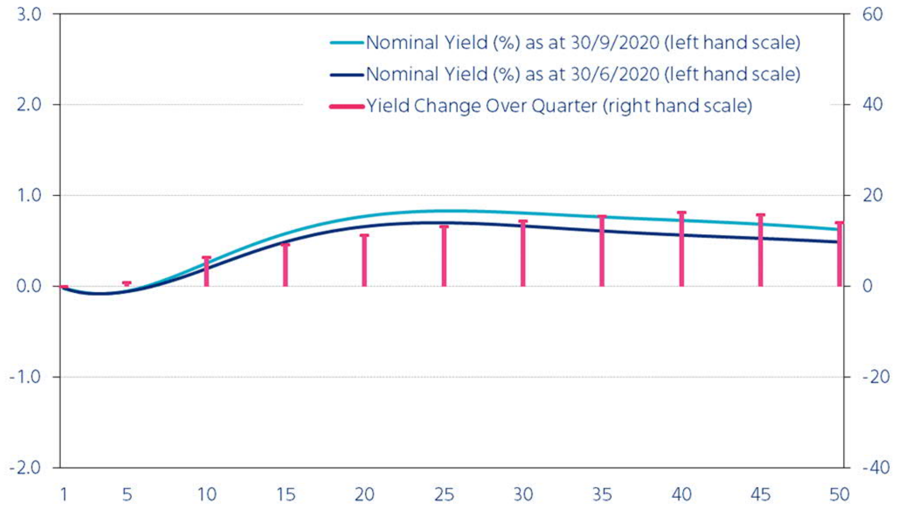
Appendix 3
Changes in Yields

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Sep 2020	30 Jun 2020	30 Sep 2019	30 Sep 2018
UK Equities	4.56	4.66	4.21	3.80
Over 15 Year Gilts	0.71	0.58	0.91	1.86
Over 5 Year Index-Linked Gilts	-2.29	-2.38	-2.20	-1.49
Sterling Non Gilts	1.54	1.68	1.84	2.63

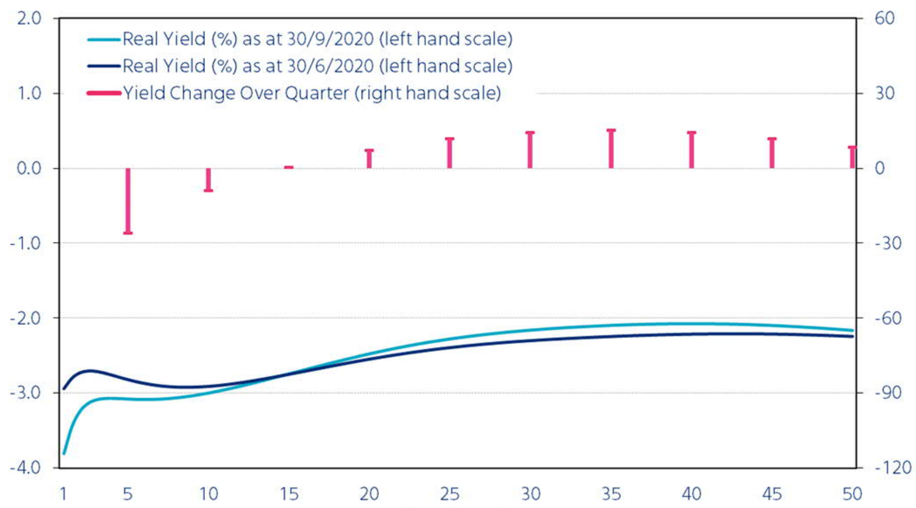
- The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment. UK monetary policy was unchanged but on the fiscal side, another spending package was announced over the quarter.
- UK real yields shifted up over the quarter, in line with the small increase in nominal yields, offset to a degree by rising break-evens. The still ongoing RPI consultation is still creating uncertainty for UK inflation-linked bonds.
- Credit spreads narrowed over the quarter as risk-on sentiment remained. This has been a bumper year already in terms of investment grade issuance but strong institutional demand and liquidity from central banks have kept credit markets stable, some volatility in investment grade credit markets during August notwithstanding.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

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MERCER

Appendix 4
Guide to Mercer Ratings

INTRODUCTION

This is a guide to the investment strategy research ratings (herein referred to as rating[s]) produced by Mercer's Investments business (herein referred to as Mercer). It describes what the ratings are intended to mean and how they should and should not be interpreted.

If you have any questions or would like more information about specific topics after reading this guide, please contact your Mercer consultant or click "Contact us" on our website www.mercer.com.

WHAT DO MERCER'S RATINGS SIGNIFY?

Mercer's ratings signify Mercer's opinion of an investment strategy's prospects for outperforming a suitable benchmark over a time frame appropriate for that particular strategy (herein referred to as outperformance). The rating is recorded in the strategy's entry on Mercer's Global Investment Manager Database (GIMD™) at www.mercergimd.com.

Mercer's ratings are normally assigned to investment strategies rather than to specific funds or vehicles. In this context, the term "strategy" refers to the process that leads to the construction of a portfolio of investments, regardless of whether the strategy is offered in separate account format or through one or more investment vehicles. There are exceptions to this practice. These are primarily in real estate and private markets where the rating is normally applied to specific funds.

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

This section contains important exclusions and warnings; please read it carefully.

Past Performance

The rating assigned to a strategy may or may not be consistent with its past performance. While the rating reflects Mercer's expectations on future performance relative to a suitable benchmark over a time frame appropriate for the particular strategy, Mercer does not guarantee that these expectations will be fulfilled.

Creditworthiness

Unlike those of credit rating agencies, Mercer's ratings are not intended to imply any opinions about the creditworthiness of the manager providing the strategy.

Vehicle-Specific Considerations

As Mercer's ratings are normally assigned to strategies rather than to specific investment vehicles, potential investors in specific investment vehicles should consider not only the Mercer ratings for the strategies being offered through those investment vehicles but also any investment vehicle-specific considerations. These may include, for example, frequency of dealing dates and any legal, tax, or regulatory issues relating to the type of investment vehicle and where it is domiciled. Mercer's ratings do not constitute individualized investment advice.

Management Fees

To determine ratings, Mercer does not generally take investment management fees into account. The rationale for this is that, due to differing account sizes, differing inception dates, or other factors, the fees charged for a specific strategy will vary among clients. Potential investors in a specific strategy should therefore consider not only the Mercer rating for that strategy but also the competitiveness of the fee schedule that they have been quoted. The area of Alternative Investments is an exception — Mercer follows market practice for "Alternatives" and rates strategies on a net of fees basis.

Operational Assessment

Mercer's research process and ratings do not include an evaluation of a manager's custodian, prime brokerage, or other vendor relationships, or an assessment of the manager's back office operations, including any compliance, legal, accounting, or tax analyses of the manager or the manager's investment vehicles. Research is generally limited to the overall investment decision-making process used by managers. In forming a rating, Mercer's investment researchers do not generally perform corporate-level operational infrastructure due diligence on a manager and do not perform financial or criminal background checks on investment management staff. Unless Mercer's investment researchers are aware of material information to the contrary (such as a view expressed by a manager's auditors or Mercer Sentinel®; see section 9), they assume that the manager's operational infrastructure is reasonable. Operational weaknesses that Mercer's investment researchers discover during their analysis of the four factors outlined in section 4 will be noted and, where appropriate, taken into account in determining ratings.

FACTORS CONSIDERED IN FORMING A RATING

In order to determine the rating for a particular strategy, Mercer's investment researchers review the strategy on the basis of four specific factors — idea generation, portfolio construction, implementation, and business management — each of which is assigned one of four scores: negative, neutral, positive, or very positive.

Mercer believes that idea generation, portfolio construction, and implementation are the main components of every investment process. These factors are defined as:

Idea generation encompasses everything that the investment manager (herein referred to as manager) does to determine the relative attractiveness of different investments.

Portfolio construction refers to the manner in which the manager translates investment ideas into decisions on which investments to include in a portfolio and what weightings to give to each of these investments.

Implementation refers to the capabilities surrounding activities that are required to achieve the desired portfolio structure.

Mercer believes that managers that do these activities well should have above-average prospects of outperformance. However, Mercer also believes that to remain competitive over longer periods, managers must be able to maintain and enhance their capabilities in these three areas. To do this, managers need to have significantly strong business management, which is the fourth factor Mercer assesses.

Business management refers to the overall stability of the firm, firm resources, and overall operations.

The four factors above apply to most product categories that Mercer researches. Variations on these factors are used in some product categories. Examples here include passive strategies, liability driven investment and private markets.

A strategy's overall rating is not determined as a weighted average of the four factor scores, and no prescribed calculations are made to arrive at the four-factor score or the overall rating. Instead, for each strategy, Mercer's investment researchers identify which factors Mercer believes are most relevant to a manager's investment process and place weight on the factors accordingly. Example considerations include:

- Mercer's confidence in the manager's ability to generate value-adding ideas.
- Mercer's view on any specified outperformance target.
- The opportunities available in the relevant market(s) to achieve outperformance.
- An assessment of the risks taken to try to achieve outperformance.
- An assessment of the strategy relative to peer strategies.
- An assessment of the manager's business management and its impact on particular strategies.

MERCER RATING SCALE

Ratings	Rationale
A	Strategies assessed as having "above average" prospects of outperformance
B+	Strategies assessed as having "above average" prospects of outperformance, but which are qualified by at least one of the following: ▪ There are other strategies that Mercer believes are more likely to achieve outperformance ▪ Mercer requires more evidence to support its assessment
B	Strategies assessed as having "average" prospects of outperformance
C	Strategies assessed as having "below average" prospects of outperformance
N/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: ▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process ▪ In product categories where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence ▪ Mercer has in the past carried out its full investment-strategy research process on the strategy, but we are no longer maintaining full research coverage

The above definitions apply to the majority of product categories researched by Mercer. However for some product categories the rating scale reflects Mercer's degree of confidence in a manager's ability to achieve a strategy's stated aims. Examples of where this applies include low volatility equities, cash, passive, liability driven strategies and DC specific solutions.

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SUPPLEMENTAL INDICATORS

Provisional (P)

If the Mercer strategy rating is followed by a (P) - for example, A (P) or B+ (P) - the rating is “provisional” - that is, there is temporary uncertainty about the rating, but it is expected that this will soon be resolved. For example, should two managers announce a merger, but without further details, this uncertainty may be highlighted by modifying the rating strategies for one or both of those firms - for instance, from A to A (P). (P) indicators are intended to be temporary and should normally last for no more than two weeks. As soon as the temporary uncertainty has been resolved, or if it becomes apparent that this uncertainty is unlikely to be resolved quickly, the (P) indicator will be removed and the rating confirmed or changed, or the strategy will be assigned the indicator “watch” (W).

Watch (W)

If the Mercer strategy rating is followed by a (W) – for example, A (W) or B+ (W) - the rating is “watch” - there is some uncertainty about the rating and resolution is not expected soon, but Mercer believes there is a low probability that the resolution of this uncertainty will lead to a change in the strategy’s rating. (W) indicators are typically issued when there is an expectation of long-term uncertainty surrounding the rating - for example, a change, or potential change, in a manager’s ownership.

Specifically Assigning (P) and (W) Supplemental Indicators

(P) and (W) indicators are assigned - and removed - by the regular ratings review process described earlier; however, there are circumstances where organizational or reputational issues that affect a manager warrant the specific assignment of a (P) or (W) indicator to an existing rating. In such circumstances, the decision to apply - or remove - a (P) or (W) indicator is taken by two senior members of the leadership group of the Manager Research team. These occasions are rare, and the relevant investment researchers will contribute to any discussions before a (P) or (W) indicator is assigned or removed.

High Tracking Error (T)

If the Mercer strategy rating is followed by a (T) — for example, A (T) or B+ (T) — the strategy is considered to have the potential to generate a tracking error substantially higher than the average for the relevant product category. In this context, “tracking error” refers to the variability of performance relative to the nominated benchmark for the strategy. A strategy may be assigned the (T) indicator because the potential for high tracking error has been demonstrated by the strategy’s past performance and/or because the nature of the investment process is such that a significantly higher than average tracking error could be expected. The absence of a (T) following a rating does not guarantee that the strategy’s tracking error will not be higher than the average for the relevant product category.

NICHE STRATEGIES

Mercer categorize a limited number of strategies as Niche. The Niche categorization is applied to strategies that are perceived as highly differentiated. Mercer does not have specific rules as to what characterizes a Niche strategy but examples might include strategies where a manager is seeking to exploit anomalies not generally recognized by other market participants. It might also be applied to strategies with a short track record and/or limited assets under management.

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RESEARCH INDICATIONS – INDICATIVE VIEW

For strategies where Mercer has conducted some initial research, we may apply Mercer Research Indications. Mercer's Research Indications are an indication of whether a strategy merits deeper / further due diligence. This indication is shown by an assigned indicative view, identified as a colour. A Research Indication does not necessarily result in future research. All Research Indications are assigned as R rating.

- Red – further research has "below average" prospects of resulting in an investable rating.
- Amber – further research has "average" prospects of resulting in an investable rating.
- Green – further research has "above average" prospects of resulting in an investable rating.

An investable rating is defined as an A or B+.

OPERATIONAL RISK ASSESSMENTS

Mercer Sentinel, a division within Mercer, undertakes operational risk assessments (ORAs) on managers, most often on behalf of clients. These ORAs assess managers' operations and implementation risk profiles and cover some of the areas mentioned in section 3, as well as other areas related to operational risk. ORAs are undertaken separately from the Manager Research process; however, the results are shared with the Lead Researcher for the manager. A Mercer Sentinel ORA that concludes with an unsatisfactory rating (namely, a "Review" rating) for a manager will result in an immediate (P) rating for all that manager's relevant rated strategies. Discussions will follow and any subsequent change in investment rating will be ratified by the standard Manager Research process. Contact your Mercer consultant for more information.

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

Mercer also assigns ratings to strategies that represent Mercer's view on the extent to which environmental, social and corporate governance (ESG) and active ownership practices (voting and engagement) are integrated into the manager's investment process and decision-making across asset classes. ESG factors are incorporated into the investment process on the basis that these issues can impact revenue, operating costs, competitive advantage, and the cost of capital. During discussions with managers about ESG integration, Mercer assesses the use of ESG information to generate outperformance.

ESG Rating Scale	
ESG1	The highest ESG rating is assigned to strategies that Mercer believes to be leaders in integrating ESG and active ownership into their core processes, and that provide clear evidence that ESG overall, or a particular ESG theme, is core to idea generation and portfolio construction.
ESG2	The second highest rating is assigned to strategies that, in Mercer's view, include ESG factors as part of decision making, with a strong level of commitment made at a firmwide level and some indication that data and research are being taken into account by the managers in their valuations and investment process.
ESG3	The penultimate rating is assigned to strategies for which, in Mercer's view, the manager has made some progress with respect to ESG integration and/or active ownership, but for which there is little evidence that ESG factors are taken into consideration in valuations and investment process.
ESG4	The lowest ESG rating is assigned to strategies for which, in Mercer's view, little has been done to integrate ESG and active ownership into their core process.

For passive strategies, Mercer applies an ESGp1 through to ESGp4. There are two key distinctions between ESG ratings for passive and active strategies. First, for passive, the bulk of the focus is on voting and engagement practices. Second, most of Mercer's analysis focuses on firm-wide levels of commitment rather than at the individual strategy level.

RATINGS REVIEW COMMITTEES

Mercer has a process for reviewing and ratifying the ratings proposed by individual investment researchers. For most product categories, strategy ratings are reviewed regularly by one of several RRCs that operate within Mercer. These committees are composed of professionals from Mercer's investment research and consulting groups who draw on research carried out by Mercer investment researchers and consultants. The role of the RRCs is to review this research from a quality control perspective and ensure consistency of treatment across strategies within a product category.

For certain asset classes, ratings will not have been reviewed by an RRC; however, the rating will have been reviewed by at least two suitably qualified investment researchers or consultants other than the recommending researcher. An R rating will not necessarily have been reviewed by an RRC but will have been subject to Mercer's standard peer review process.

CONFIDENTIALITY OF MERCER'S RATINGS

Mercer's ratings, along with all other information relating to Mercer's opinions on managers and the investment strategies they offer, represent Mercer's confidential and proprietary intellectual property and are subject to change without notice. The information is intended for the exclusive use of the parties to whom it was provided by Mercer and may not be modified, sold, or otherwise provided, in whole or in part, to any other person or entity (including managers) without Mercer's prior written permission.

MERCER

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

BRUNEL

Pension Partnership

AVON PENSION FUND

Performance Report for Quarter Ending 30 September 2020

Contents

Brunel News

BRUNEL
Pension Partnership

The political, economic and social ramifications of COVID-19 are clearly still with us, but the third quarter saw a very significant uptick in investment activity across Brunel, following a tactical delay in transitions agreed across client funds. As markets have stabilised, we have been able to put allocation plans into practice, with close to £2.7bn of client funds invested in new fund launches over recent months. The £1.2 billion Diversifying Returns Fund was a complex product to design and implement but its provision of downside protection at times of market stress is timely, and yet it still targets the returns required by clients, investing across a range of asset classes.

The Global Small Cap Fund has also been developed to match investor needs. We wanted to target the small cap returns premium but without the weaker ESG characteristics often associated with the asset class. The £300 million portfolio draws on a range of investment approaches, with low correlation between our chosen managers. Over thirty strategies were reviewed and three managers were chosen with ESG integration and engagement prioritised throughout.

We also launched the Sustainable Equities Fund, which represents a major step forward in Responsible Investment. With a launch value of £1.2billion, the fund mandates managers to positively pursue companies that will provide a benefit to society.
Laura Chappell, CEO, says: "*These transactions are important on many levels for Brunel. The partnership has been able to deliver these complex portfolios at a time of significant economic and social stress because of the commitment by all parties to deliver financial outcomes that meet the expectations of shareholders, members and clients. This has been achieved through a period of almost exclusively remote working and is a testament to the strength of collaboration and the positive impact of shared values*."

Over the same period, the manager selection progress has begun for the Multi-Asset Credit Fund and the Sterling Corporate Bond Fund. On the Private Markets side, the partnership is pleased to have passed a major landmark, as property transitions reached £1 billion . We are proud of the partnership's success in ensuring members have access to this less-accessible asset class, with all the diversification that provides, and the ESG innovation that the fund enables.

All of this has been achieved despite the logistical and operating constraints imposed on all businesses through the pandemic and in line with government guidelines and our own 'level of care' standards for employee health, safety and mental well-being. As of recently, all staff are now able to work in the office as required or for co-working – and to do so safely under new procedures, which we continue to review. Looking further ahead, we have taken significant steps across the partnership to put the principles of Paris Alignment into practice . The partnership supported the launch of the **IIGCC Net Zero Investment Framework**, the first practical framework to guide asset owners and managers seeking to become Net Zero investors, across a range of investment themes and asset classes.

To keep clients fully informed, we published the first issue of our Responsible Investment newsletter. Our clients and their pension committees have also been provided with guidance about Brunel's approach to the increasing level of public engagement on environmental and social issues. This is a complex area and requires informed and evidence-based responses by asset managers which also meet the risk-and-return-based requirements of clients. The coming months will continue to be challenging but transition plans are on schedule for completion in the New Year. By working in collaboration with clients and remaining adaptable, we believe this important execution phase will only benefit the partnership's development.

BRUNEL Pension Partnership

Performance of Pension Fund

The Fund delivered a strong outperformance against its strategic benchmark over the quarter. The 3-month GBP performance was 1.9%, which was 2.1% ahead of the strategic benchmark. Over one year, the Fund has returned -0.2%, which is -3.6% behind the strategic benchmark.

Private Market assets reflect the most recent valuation, which may include lagged data.

Key Points:

- 1.9% Absolute Net Performance Q3
- 2.1% Relative Performance vs Strategic benchmark Q3
- -0.2% Absolute Net Performance 1Y
- -3.6% Relative Performance vs Strategic benchmark 1Y

Fund specific events

- Sustainable Equities and Diversifying Returns portfolios launched in quarter
- Avon exited Active UK Equity in the quarter

The Global High Alpha Equity Sub-Fund continued to perform strongly over the quarter, providing a relative outperformance of +4% above the benchmark, thereby improving its outperformance since inception to +13.2%.

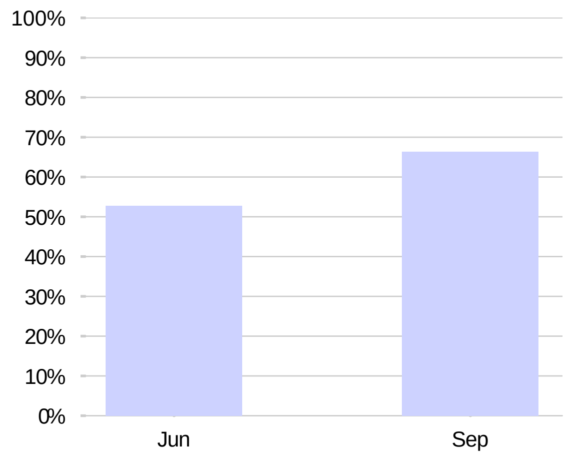
The Diversifying Returns Sub-Fund was launched on 27th July 2020, after which there was a phased transition to sell down the seed assets. The performance period began on 13th August 2020, when the target portfolio was reached. Within that time frame, performance varied across the four strategies, with currency moves weighing heavily on one of the strategies.

MSCI Emerging Markets – a proxy for broad emerging market equities – returned +1.5% year to date, despite falling by more than 18% in Q1 2020. The Emerging Market Sub-Fund enjoyed positive returns. Absolute performance over the last 3 months was +5.7% vs benchmark return, proxied by MSCI Emerging Markets, and +4.8% in GBP terms.

Total Fund Valuation

	Total (GBPm)
30 Jun 2020	4,955
30 Sep 2020	5,032
Net cash inflow (outflow)	-16

Assets Transitioned to Brunel



GBP 2,616m GBP 3,340m

Market Summary – Listed Markets

BRUNEL
Pension Partnership

This quarter equity markets consolidated the strong rebounds seen in Q2 with more muted single- digit gains in US, Japan, and Emerging Markets, whilst Europe remained flat and Asia ex Japan experienced a negative return.

In the light of a continued divergence between equity market valuations and economic performance, market participants were left to assess the potential impact of unprecedented fiscal and monetary stimulus packages across the globe. This impact had to be balanced with the ongoing shock to economic activity presented by the COVID-19 pandemic, and the risk of a second wave and associated lockdowns.

Amongst this, the US Fed announced a change of regime by adopting an average inflation target to allow for temporary overshoots in inflation, and the Bank of England debated the use of negative interest rates as a potential future policy tool.

Disparity between sectors, regions, and rising concentration within equity markets

Despite a brief hiatus in the performance of the FAANG+ cohort of stocks towards the end of the quarter, the ongoing rally in these names and increasing concentration within equity markets in general, continues to generate concerns.

Apple achieved a higher market value than either the FTSE 100 index and the Russell 2000 small cap index (Chart 1) . Such concentration in individual names is not limited to the US: Alibaba comprised over 43% of the MSCI Emerging Markets Consumer Discretionary Index at the end of September 2020. On a sector basis, Chart 2 shows the disparity this year between sector returns within North American equities and the reliance on a small number of sectors in driving the positive returns for the region.

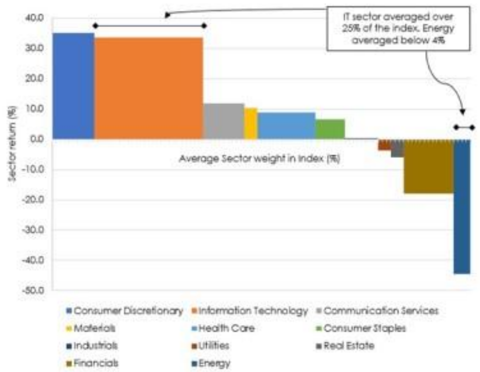
Furthermore, the rally in large-cap, tech-related growth companies explains regional differences in equity market performance. At a 28% weighting, the IT sector within the MSCI North American index is considerably larger than for equivalent UK and European indices (Chart 3). Moreover, when you include FAANG+ stocks categorised in other sectors, the US weighting rises to near 40%. Meanwhile, the more traditional and currently challenged sectors of Financials and Energy make up a materially larger proportion of European (particularly UK) and Emerging Market equity indices.

With stretched valuations in some sectors and high levels of concentration in individual names, the economic outlook is highly uncertain. The consensus is for more volatility in equity markets over the coming quarter. And that is before even considering the potential impacts of the upcoming US election in early November, and the conclusion of any post-Brexit trade deal.

Chart 1: Apple's market value greater than both FTSE 100 and US Small cap Index
($,000's)

Source: Brunel (FTSE / Factset)

Chart 2: Comparative Sector Weights and Returns
MSCI North America, YTD 30 Sept 2020



Source: Brunel (MSCI / Factset)

Market Summary – Listed Markets

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Global Developed Equities

• Global developed equities, proxied by the MSCI World Index, increased by 3.3% in GBP terms over the quarter.
• The US was the largest driver of performance, returning 4.8% over the period. The UK was the largest country detractor within developed equities.
• On a sector basis, Consumer Discretionary and IT were the largest contributors to returns. Within Consumer Discretionary, Tesla was the largest contributor, despite a relatively small position within the index, delivering a notable 90% return. IT names that contributed most were Apple (21.6%) and NVIDIA (36.2%), with the latter announcing the acquisition of ARM during the quarter.
• In contrast, Energy fell by 19.4% in GBP terms with 5 of the 7 largest names in the sector all falling by more than 20%. Despite oil prices holding relatively stable since last quarter's oil price shock, producers have struggled to break even. Negative investor confidence has weighed heavily due to concerns over the impact of a potential Biden presidency, and the trend away from traditional energy producers to their renewable energy counterparts.

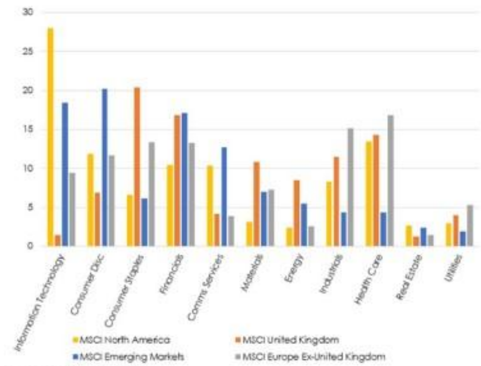
UK Equities

• UK Equities (as represented by the FTSE All Share ex Investment Trusts Index) followed their best quarterly return in seven years in Q2, with a fall of 3.5% over the quarter, continuing the trend of lagging their global peers.
• The sectors to suffer major losses over the quarter were Oil and Gas (-24%) and Telecommunications (-17.8%), as large benchmark names suffered in both sectors.
• A positive performance in Technology (+8.8%), driven by service and software companies, was not enough to offset losses in other sectors. Technology only has a 1.3% weight within the index.

Emerging Markets

• Emerging markets enjoyed a solid quarter, the MSCI Emerging Markets Index rose by almost 5% in GBP terms, outperforming its developed markets counterpart.
• On a country basis, China was by far the largest contributor to returns, rising 7.6% over the quarter in GBP terms, thereby contributing over 3% to the total benchmark performance of 4.9%.
• Performance dispersion between countries continued, this quarter ranging from Turkey at -19.4% (giving up all of the previous quarter's gains), to Taiwan at +11.9%, where the index had already risen 22% during the previous quarter. It was notable that Argentina, which last quarter achieved 44.2% was relatively flat in Q3, achieving a 2% return.
• Consumer Discretionary and IT were the 2 highest-performing sectors (+21.2%, and +15.4% respectively), reflecting a similar sector experience to developed markets . Financials continued to struggle, underperforming all other sectors, and only marginally behind Energy.

Chart 3: Differences in sector weights between regional equity markets.
30 Sept 2020, %'s



Source: Brunel (MSCI / Factset)

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Overview

The global economy picked up rapidly from its partial paralysis in early Q2, when lockdowns meant that activity in certain sectors dropped to almost zero. The extreme pessimism felt in H1 has abated, and expectations for earnings have begun to improve, albeit from depressed levels.

While some restrictions remain in place in most countries, particularly in Europe in recent weeks, these are far removed from the strict "stay-at-home" orders issued earlier in the year.

Essential to the recovery in activity has been the vast amount of policy support – both monetary and fiscal.

Infrastructure

In many economic crises, infrastructure businesses are impacted by the tail end of the recession, as demand for essential services flags. From the very beginning of the COVID-19 crisis, however, it was clear that infrastructure would be impacted first. The state of emergency announced during the initial phase brought nationwide lockdowns globally, and most transport links were shut down. The economic implications of these radical measures are only really showing now, months after the initial shock.

Merchant companies are the most exposed to market risk and were hit the hardest both by lower expected cash flows and profits drops. Across all sectors, transport was also heavily impacted, given that, since March, major airports, ports, and roads have seen traffic plummet, and only start to recover in early Q3. Conversely, contracted business models , especially those with low risk profiles – such as onshore wind farms and solar PV – were much less impacted over the reporting period.

The Brunel Infrastructure portfolio remained resilient through the period; most of the renewable energy portfolio was secured by 90% contracted revenues. The Vauban Core Infrastructure fund, despite its exposure to transport , has managed to close three transactions since March 2020, achieving full deployment of the fund while continuing to actively manage the assets in the portfolio to preserve and generate additional value. The Brunel Private Markets team has successfully set up two new infrastructure vehicles for Cycle 2, a £470m vehicle dedicated to renewable energy, and a £370m vehicle dedicated to general infrastructure – the last of these focuses on telecoms, energy, social infrastructure, and transport.

Photo by Matt Seymour on Unsplash

Market Summary – Head of Private Markets

Private Equity

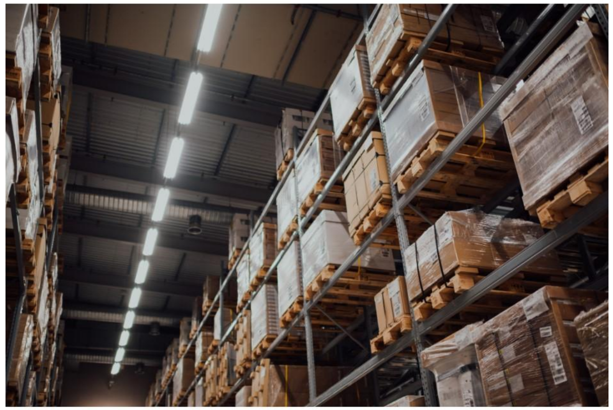
Deal activity in Q3 2020 started to pick up as sentiment improved, following the quick recovery of public markets. Since COVID-19 broke out worldwide, GPs had been focusing on portfolio management, which led to a quiet quarter in Q2 2020. With the portfolio under control, improved sentiment and ample dry powder from strong fundraising years, the GPs have resumed making investments. The investments were mainly focused on resilient sectors such as technology and healthcare. On the other hand, the managers that owned mature assets in these sectors benefited from strong buying interest and high valuation. They were able to exit and generate distributions for their investors.

Fundraising activity during H1 2020 slowed down. Compared to H1 2019, H1 2020 fundraising declined 25% in terms of capital raised. In addition, the fundraising was concentrated among fewer funds. Managers with strong platforms and track records are expected to continue to meet or exceed their fundraising target. Overall, the fundraising market for 2020 is expected to be lower, especially compared to the records achieved in 2019.

Property

Transactional activity in UK property picked up over the summer in most market sectors, allowing valuers to remove most Material Uncertainty Clause s from property funds in September. Nevertheless, pricing levels for large retail sites will probably only be tested this quarter. Sector preferences continue to polarise; logistics benefited from UK retail spending moving to online for 33% of retail spend and further pandemic-driven lockdowns are likely to consolidate or increase demand for e-commerce distribution centres ahead of Christmas. Retail warehouses remain the most resilient assets in a sector that has seen some asset values fall by up to 50% over the last year. 65% of office workers are expected to return to their offices by Q1 2021, though this is likely to be undermined by further travel restrictions through the winter. In the Alternatives sector, student housing has high numbers of UK students this term, but uncertainty remains for occupancy in 2021. Internationally, similar themes are developing, with investors focusing on increased demand for assets relating to ecommerce, onshoring and demographics-driven residential demand.

Photo by CHUTTERSNAP on Unsplash



Responsible Investment & Stewardship Review

While our planned work in responsible investment and policy advocacy continued, the rise of COVID-19 globally added a new dimension to our priorities. We have had to navigate issues with companies and their approach to effective shareholder engagement in a virtual world; on mental health in the workforce; and on modern human slavery in supply chains. Each of these issues has been exacerbated by the various lockdowns imposed around the world. However, climate has remained our top priority and we have been active in highlighting the need for a socially-inclusive, green recovery through our advocacy work at both UK and EU level.

Source: Macau photo agency

Putting the 'S' back in ESG

The ongoing pandemic continues to shine a light on a whole range of social challenges and inequalities, highlighting the need for the investment sector to further engage on the social component of ESG. Social data is sparce and can be challenging to quantify. To help improve this, Brunel has joined the **Workforce Disclosure Initiative.** The initiative calls for greater transparency on workforce policies and practices in companies' direct operations and supply chains. We have also joined the Good Work Coalition, which engages with companies on the importance of a real living wage and living hours. Helen Price has recently written a guest blog to raise awareness and highlight the newly-launched Living Wage Investor Toolkit and unpack its usefulness in engaging with companies. Brunel will continue to engage on this throughout the year.

Working with policy makers and regulators

The Department for Work & Pensions launched a consultation in August, proposing mandatory **Taskforce on Climate-related Financial Disclosures** (TCFD) to be embedded within pensions Law. The public consultation, launched by the Pensions Climate Risk Industry Group (of which Faith Ward is a member), sought views on policy proposals to require trustees of larger occupational pension schemes and authorised schemes to address climate change risks and opportunities through effective governance and risk management measures.

Our key message to the DWP was the same one we shared with the **FCA in their consultation** on climate disclosures of companies (submitted the week before). We emphasised that, for pension funds to improve transparency, there needs to be reporting all the way along the investment chain. Currently, the FCA proposes a 'comply or explain' approach, while the DWP is looking for mandatory reporting – we have flagged the disparity. We report in line with TCFD recommendations each year and are currently drafting our disclosures for inclusion in our 2020 Annual Report and Accounts.

Climate – practical support in achieving Net Zero

Brunel is part of the leadership of the **Institutional Investor Group on Climate Change (IIGCC)** and has therefore been closely involved in drafting the **Net Zero Investment Framework**, which aims to set a global standard for investors to demonstrate they are Paris-aligned. 'Paris-aligned' is defined as limiting temperature rises to well below 2°C, preferably 1.5°C, above pre-industrial levels, by 2050 or sooner.

The project, in collaboration with 70 global investors representing $16 trillion in assets, has three main objectives:

- **Develop working definitions of concepts, terms and pathways** relevant to achieving Paris-aligned portfolios
- **Develop and assess methods and approaches** for measuring alignment and the transition of asset classes
- **Test the financial implications** of aligning portfolios to the goals of the Paris Agreement, using real world portfolios and quantitative modelling

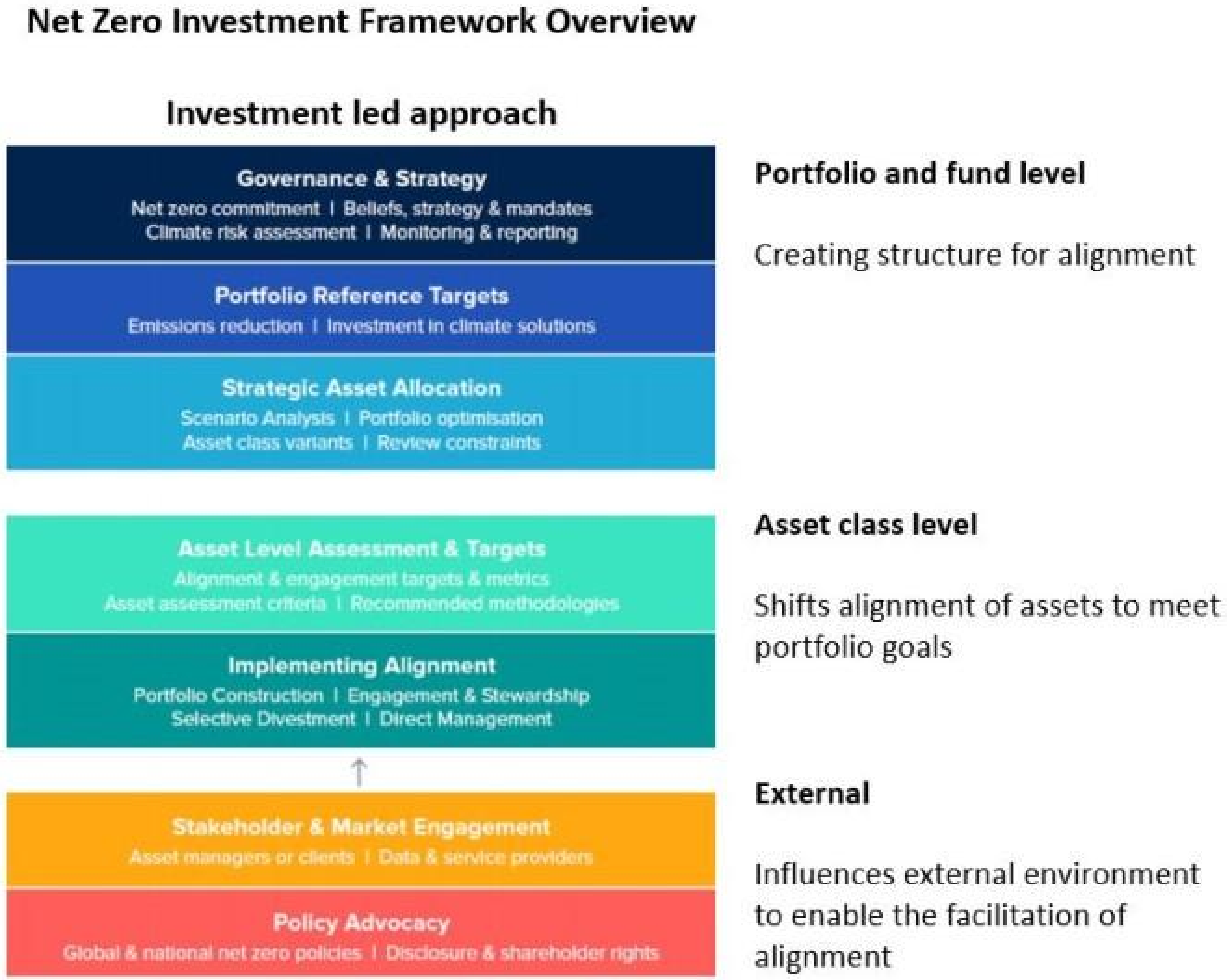
The project takes an investment-led approach and delivers recommended frameworks for achieving Paris alignment by decarbonising portfolios and increasing allocations to climate solutions. The framework takes both a top-down and bottom-up approach. That includes analysis at fund and portfolio level, at asset class level (for sovereign debt, listed equity, corporate debt and real estate) and analysis of external influences (stakeholder & market engagement and policy advocacy). This holistic approach enables investors to maximise their impact in driving real-world decarbonisation.

The Net Zero methodology was released for consultation to the wider investment community in September and the feedback from the consultation is currently being considered by the IIGCC. This will feed into an updated framework that is due to be published towards the end of the year.

Brunel was one of five investors that support testing the methodologies and we look forward to sharing our own reflections and hearing the insights of others through the consultation later this year. The next phase of the project entails creating frameworks for infrastructure and private equity asset classes. Participants will consider some of the relative impacts of different climate solutions. The next phase will also be used to develop guidance on how to support investors with the implementation of the framework. For further information on the project please see - https://www.iigcc.org/our-work/paris-aligned-investment-initiative/

IIGCC
Institutional Investors Group on Climate Change

NET ZERO INVESTMENT FRAMEWORK 1.5°C


Net Zero Investment Framework Overview
Investment led approach
Governance & Strategy
Net zero commitment | Beliefs, strategy & mandates
Climate risk assessment | Monitoring & reporting
Portfolio Reference Targets
Emissions reduction | Investment in climate solutions
Strategic Asset Allocation
Scenario Analysis | Portfolio optimisation
Asset class variants | Review constraints
Asset Level Assessment & Targets
Alignment & engagement targets & metrics
Asset assessment criteria | Recommended methodologies
Implementing Alignment
Portfolio Construction | Engagement & Stewardship
Selective Divestment | Direct Management
Stakeholder & Market Engagement
Asset managers or clients | Data & service providers
Policy Advocacy
Global & national net zero policies | Disclosure & shareholder rights
Portfolio and fund level
Creating structure for alignment
Asset class level
Shifts alignment of assets to meet portfolio goals
External
Influences external environment to enable the facilitation of alignment

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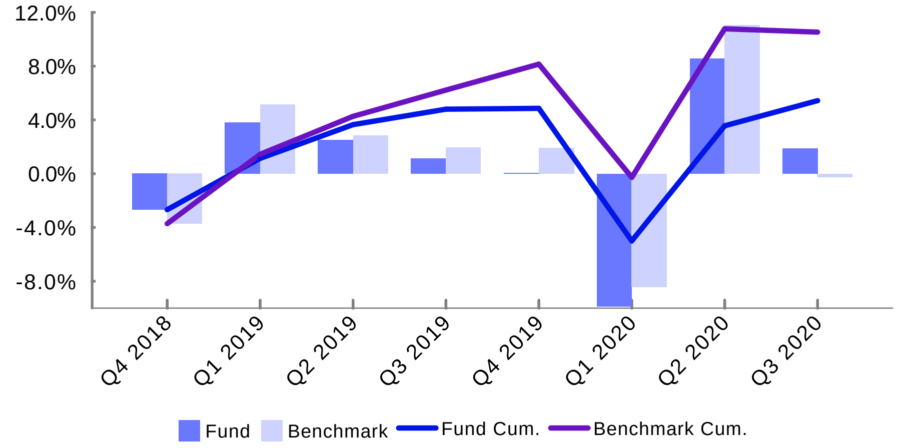
Summary of Pension Fund Performance

Performance of Fund Against Benchmark (Annualised Performance)

Period	Fund	Strategic BM	Excess
3 Month	1.9%	-0.2%	2.1%
Fiscal YTD	10.6%	10.8%	-0.2%
1 Year	-0.2%	3.4%	-3.6%
3 Years	3.3%	5.7%	-2.4%
5 Years	6.8%	8.7%	-2.0%
10 Years	7.0%	8.0%	-1.0%
Since Inception	8.2%		

Rolling Quarter Total Fund (Net of Manager Fees)



Key Drivers of Performance

Over the third quarter of 2020, the Fund delivered a positive absolute and exceeded its strategic benchmark. Highlights during the period were:

- Both existing actively managed Brunel equity portfolios exceeded their benchmarks in the quarter.
- The key Brunel portfolio driver of performance in the quarter was again Global High Alpha which returned 7.3%, beating the benchmark by more than 4%.

Asset Allocation of Pension Fund

BRUNEL
Pension Partnership

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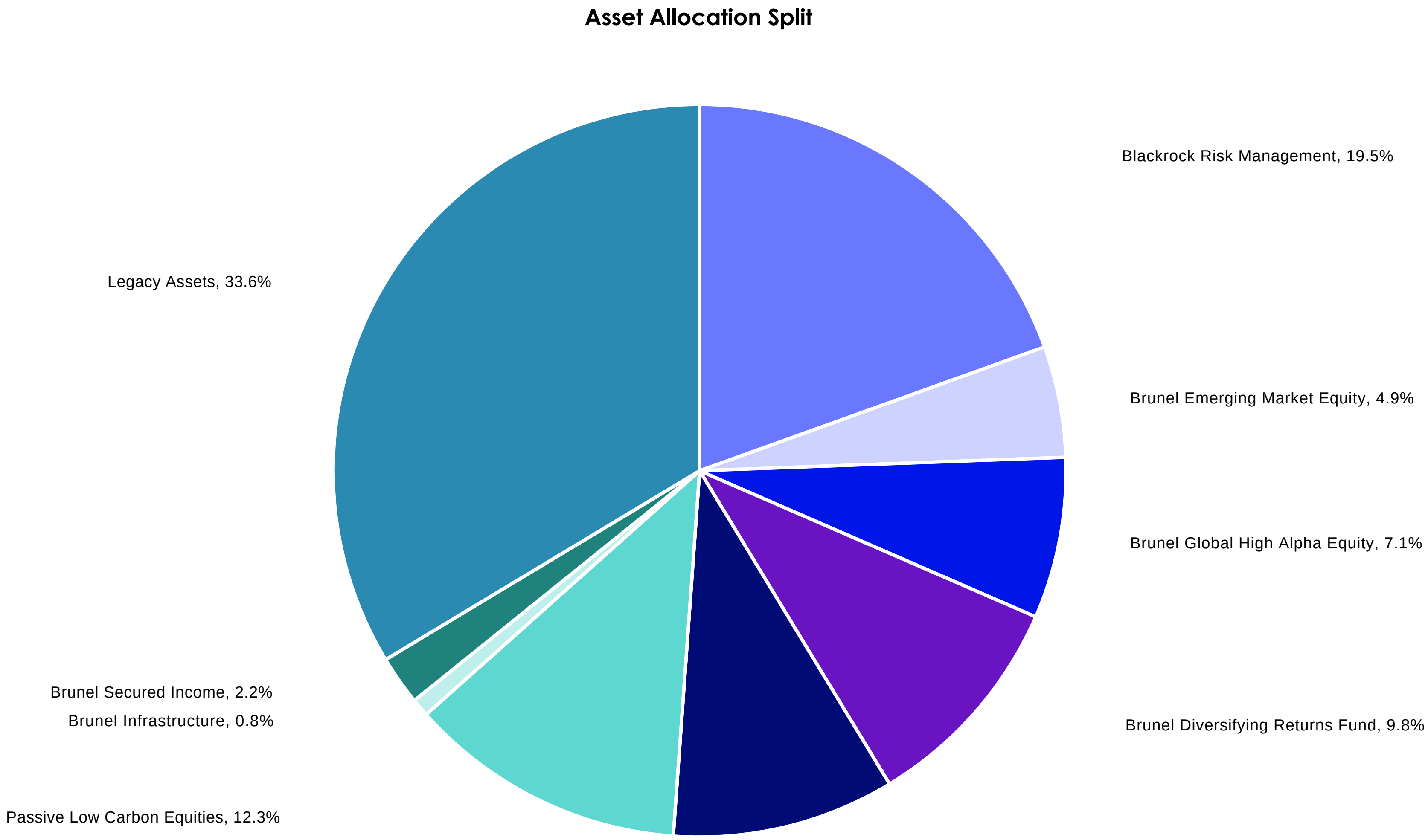
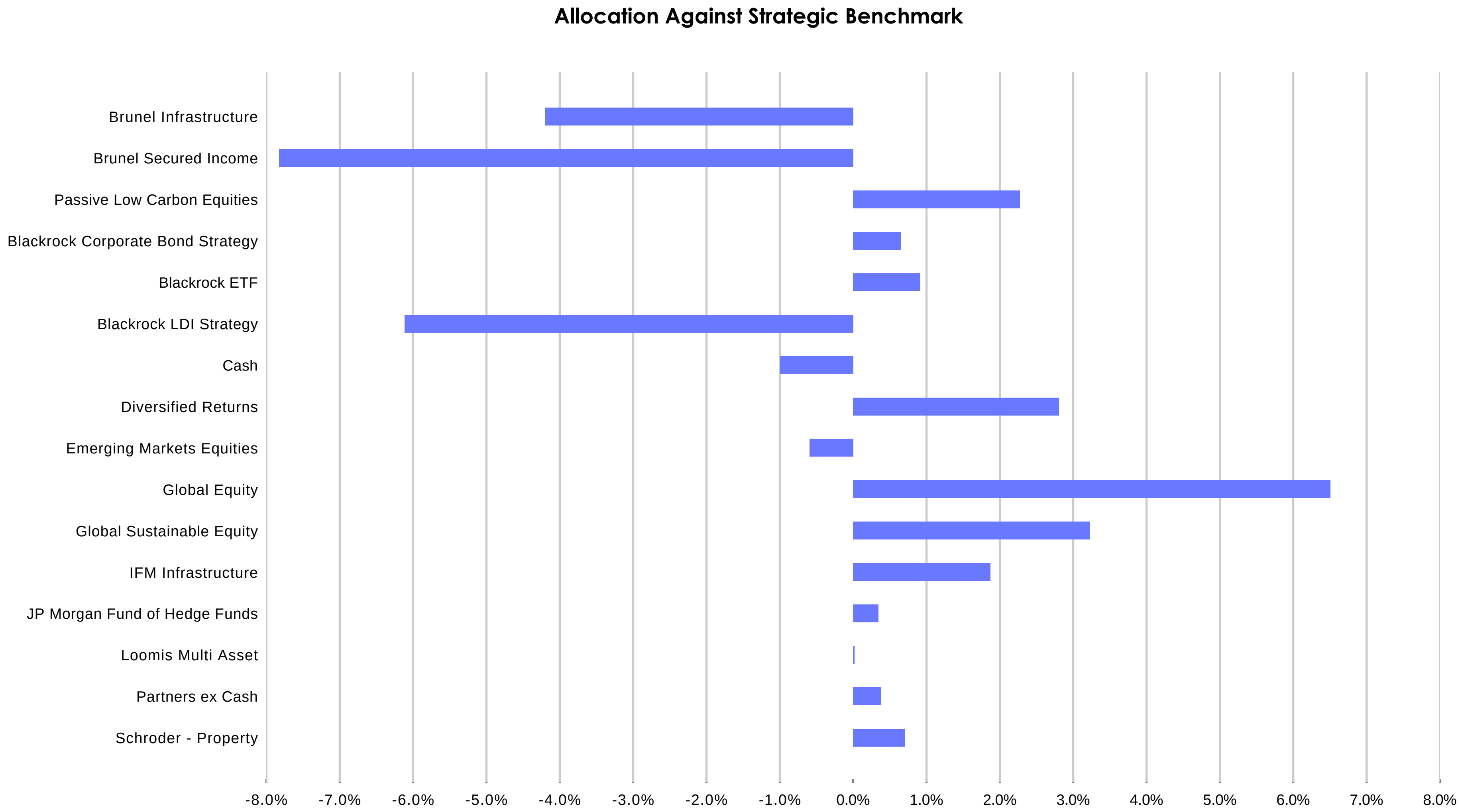


Asset Allocation of Pension Fund



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Brunel Portfolios Overview

Portfolio	Benchmark	AUM (GBPm)	Perf. 3 Month	Excess 3 Month	Perf. 1 Year	Excess 1 Year	Perf. 3 Year	Excess 3 Year	Perf. 5 Year	Excess 5 Year	Perf. SII*	Excess SII*	Initial Investment
Brunel Diversifying Returns Fund	SONIA Benchmark	493									-1.5%	-1.5%	27 Jul 2020
Brunel Emerging Market Equity	MSCI EM TR Gross	247	5.8%	1.0%							3.8%	-1.7%	09 Oct 2019
Brunel Global High Alpha Equity	MSCI World TR Gross	358	7.3%	4.1%							19.2%	13.2%	15 Nov 2019
Brunel Global Sustainable Equities	MSCI AC World GBP Index	494											30 Sep 2020
Passive Low Carbon Equities	MSCI World Low Carbon Target	617	3.4%	0.0%	6.2%	-0.1%					8.9%	-0.1%	11 Jul 2018

*Since Initial Investment

Performance based on tradeable NAV

Where there are disparities between returns quoted above and returns provided for the same fund and period in the following pages, this is because the fund-specific pages reflect the posttransition phase, important for monitoring the performance of selected managers, while those given above reflect the Clients' actual experience from the point of initial investment, which in some cases includes the shared impact of transition costs.

Tradeable NAV performance reflects NET performance. The following product pages reflect the portfolio's NET performance

Brunel Portfolios Overview (Exited)

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Pension Partnership

Portfolio	Benchmark	AUM (GBPm)	Perf. 3 Month	Excess 3 Month	Perf. 1 Year	Excess 1 Year	Perf. 3 Year	Excess 3 Year	Perf. 5 Year	Excess 5 Year	Perf. SII*	Excess SII*	Initial Investment
Brunel UK Active Equity	FTSE All Share		-1.7%	1.2%	-15.1%	1.5%					-3.8%	0.4%	21 Nov 2018

*Since Initial Investment

Performance based on tradeable NAV

Where there are disparities between returns quoted above and returns provided for the same fund and period in the following pages, this is because the fund-specific pages reflect the posttransition phase, important for monitoring the performance of selected managers, while those given above reflect the Clients' actual experience from the point of initial investment, which in some cases includes the shared impact of transition costs.

Tradeable NAV performance reflects NET performance. The following product pages reflect the portfolio's NET performance

Passive Low Carbon Equities

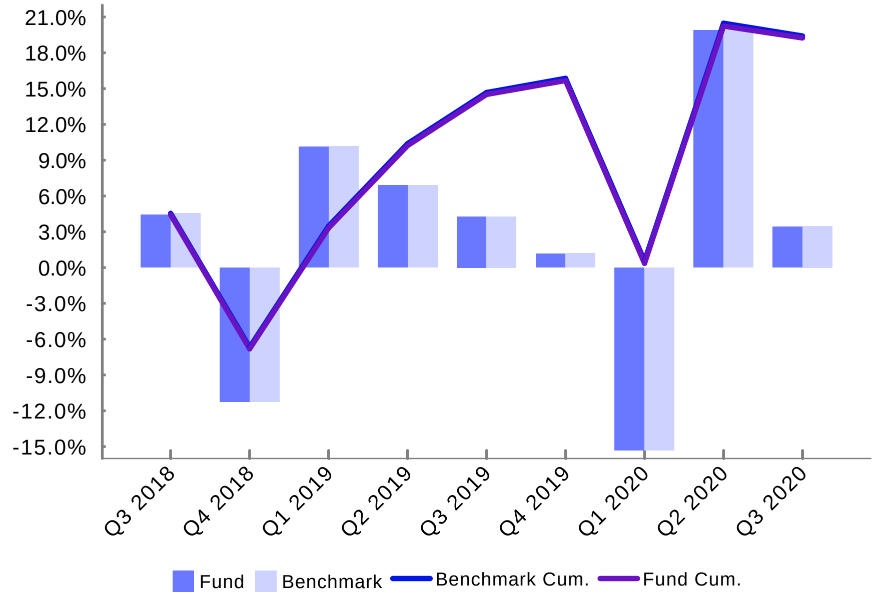
Overview

	Description
Portfolio Objective:	Provide exposure to equity returns and global economy with low exposure to carbon emissions and fossil fuels.
Investment Strategy & Key Drivers:	Portfolio is invested in global equities in accordance with Low Carbon index.
Liquidity:	High
Risk/Volatility:	High absolute risk with very low tracking error.
Total Fund Value:	£1,067,936,789

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	3.4%	3.5%	0.0%
Fiscal YTD	24.0%	24.1%	-0.1%
1 Year	6.2%	6.3%	-0.1%
3 Years			
5 Years			
10 Years			
Since Inception	8.9%	9.0%	-0.1%

Rolling Performance*



* Partial returns shown in first quarter

The Passive Low Carbon product performed positively over Q3 2020 and performed broadly in line with its MSCI Low Carbon Target Index. Returns were also positive for the 12-month period ending 30 September 2020, with the product returning 6.25% compared to a benchmark return of 6.35%.

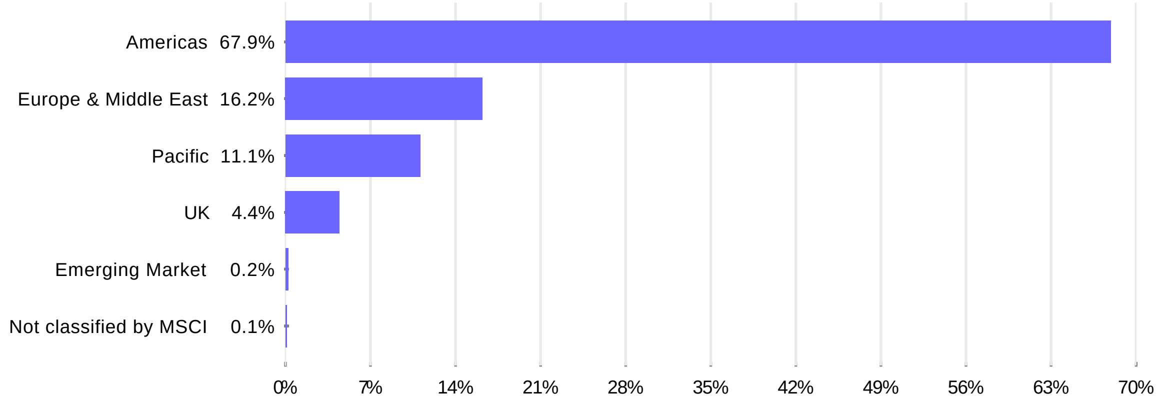
• For the 12-month period ending 30 September 2020, the product outperformed the wider global stock market. This was driven primarily by the poor-performing energy sector, in which the product is underweight, and by a slight overweight in the technology sector, which has performed well.

Passive Low Carbon Equities – Region & Sector Exposure

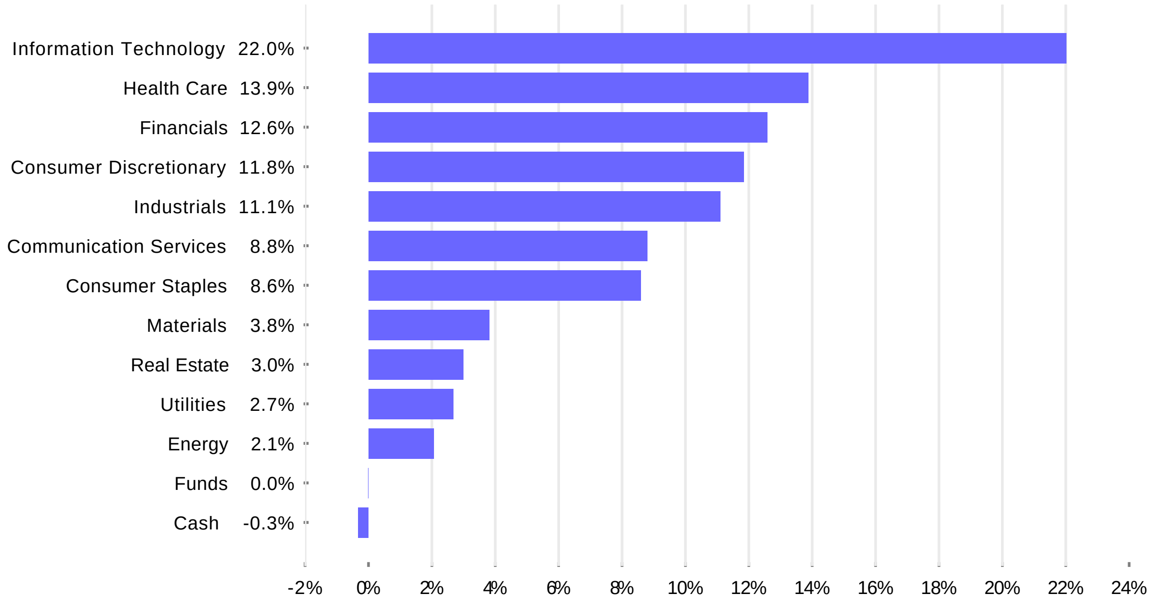
Top 20 Holdings

	Mkt. Val.(GBP)
APPLE INC	69,706,005
MICROSOFT CORP	51,758,548
AMAZON.COM INC	45,634,611
FACEBOOK INC-CLASS A	21,536,723
ALPHABET INC-CL C	15,261,861
ALPHABET INC-CL A	15,041,535
JOHNSON & JOHNSON	13,817,123
NESTLE SA-REG	12,308,768
PROCTER & GAMBLE CO/THE	12,160,733
VISA INC-CLASS A SHARES	11,914,691
NVIDIA CORP	11,366,235
TESLA INC	11,083,896
MASTERCARD INC - A	10,436,591
HOME DEPOT INC	10,245,190
UNITEDHEALTH GROUP INC	9,816,028
BERKSHIRE HATHAWAY INC-CL B	9,812,851
JPMORGAN CHASE & CO	9,616,982
VERIZON COMMUNICATIONS INC	8,514,631
ROCHE HOLDING AG-GENUSSCHEIN	7,996,378
ADOBE INC	7,802,024

Regional Exposure



Sector Exposure



Passive Low Carbon Equities – Responsible Investment

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. NVIDIA CORP	66.3	50.0
2. SAP SE	74.6	54.0
3. NEXTERA ENERGY INC	74.5	39.4
4. PROCTER & GAMBLE CO/THE	63.6	73.0
5. NESTLE SA	63.2	64.3
6. SCHNEIDER ELECTRIC SE	78.4	50.0
7. MICROSOFT CORP	59.3	33.5
8. MASTERCARD INC	63.3	67.7
9. SALESFORCE.COM INC	65.5	50.0
10. ACCENTURE PLC	66.7	35.7

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. APPLE INC	51.3	35.6
2. AMAZON.COM INC	50.4	30.5
3. FACEBOOK INC	43.6	35.3
4. ALPHABET INC	49.8	55.2
5. NETFLIX INC	43.3	34.5
6. JOHNSON & JOHNSON	51.4	74.0
7. JPMORGAN CHASE & CO	49.1	35.4
8. NIKE INC	46.2	72.8
9. AT&T INC	49.6	37.5
10. WALT DISNEY CO/THE	50.5	48.1

Weighted Average ESG Score	2020 Q2	2020 Q3
Portfolio	58.3	58.3
Passive Dev Equities	58.4	58.5

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)

Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q2	Q3	Q2	Q3
Portfolio	2.5	2.6	5.0	4.8
Passive Dev EQ	3.3	3.1	8.2	7.5

1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores

TruValue Labs & SASB

Brunel Assessment:

- **Nike** (Apparel & Footwear) retained staff on full pay, closed stores during COVID-19 and donated equipment to hospitals. After the death of George Floyd, Nike committed £40m to support black communities over four years and made Juneteenth a paid holiday.
- **JP Morgan Chase** (Bank) committed $30b to address the racial wealth gap. The bank came under scrutiny after allegations firms moved $2 Trillion in suspicious funds and is poised to pay c.$1b to resolve US market manipulation investigations.
- **Procter & Gamble** (Consumer Goods) announced a new carbon-neutral commitment for the next 10 years: aims to halve carbon emissions and invest in natural climate solutions.
- **Johnson & Johnson** (Pharmaceuticals) was subject to civil charges filed by New York State for its role in the opioid crisis. COVID-19 vaccine trials progressed to phase 3. Johnson's launched its Healthy Lives Mission, pledging $800m through 2030 for more sustainable products and a healthier planet.

100% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The benchmark is MSCI Developed World (source index) so that the carbon reductions achieved by the application of carbon constraints to create the MSCI Developed World Low Carbon Portfolio are easier to monitor.

Brunel Diversifying Returns Fund

BRUNEL
Pension Partnership

Overview

	Description
Portfolio Objective:	Provide exposure to a range of alternative return drivers and a degree of downside protection from equity risk.
Investment Strategy & Key Drivers:	Actively managed to achieve growth at moderate absolute risk, diversified between asset classes and by geography.
Liquidity:	Managed Liquidity.
Risk/Volatility:	Moderate absolute risk against cash.
Total Fund Value:	£1,203,446,140

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month			
Fiscal YTD			
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	-1.0%	0.0%	-1.0%

The Sub-Fund was launched on 27th July 2020, after which there was a phased transition to sell down the seed assets. The performance period began on 13th August 2020, when the target portfolio was reached. There was one further large, and five smaller, weekly subscriptions into the fund during the reporting period.

The manager allocations remained within their strategic ranges throughout the post-transition period and there were no notable changes to positioning by the managers of the underlying strategies.

The four strategies used within the fund target a variety of different return premia. Some will benefit from mean reversion in markets and factors, while others are momentum-driven or trend-following. Some risk premia, notably Value and Quality, are nearing historically wide dispersion levels. While there is always scope for markets to become more distorted, as they did in this period, from a long-term perspective, that kind of distortion indicates scope for attractive future returns.

• Performance was modestly positive from Lombard Odier, which has gradually added risk to the All Roads Fund to take it back to its/their neutral point from an all-time low in the spring.

Brunel Diversifying Returns Fund

Continued Commentary

• JPMorgan is seeing wider dispersion on Quality and Value than for some time, although during this period the distortions became more extreme. Of the risk premia included in the Diversified Risk Fund, only Size saw a mini revival in this period.

• William Blair Dynamic Diversified Allocation fund retains its cautious stance, as it views both equity and bonds as currently overvalued. Managers believe stock-specific opportunities are attractive and their models indicate some appealing reversionary potential among currencies.

• UBS had a challenging period. Several of its long positions, notably Norwegian Krone and Brazilian Real, suffered from weakening investor sentiment towards commodity-dependent currencies.

Brunel Emerging Market Equity

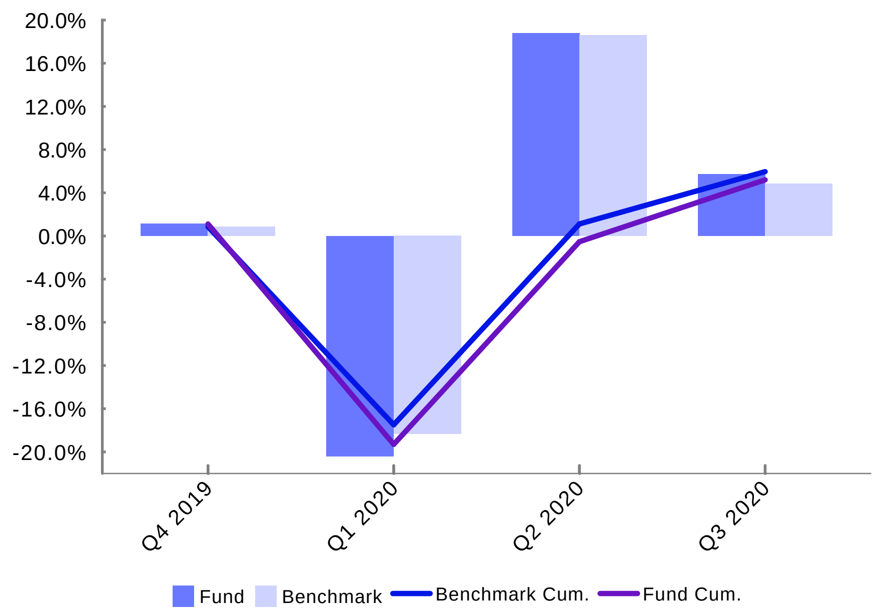
Overview

	Description
Portfolio Objective:	Provide exposure to emerging market equities, targeting excess returns and enhanced risk control from leading managers.
Investment Strategy & Key Drivers:	A geographically diverse portfolio, typically expected to achieve higher long-term growth rates than developed economies.
Liquidity:	Managed liquidity. Less exposure to more illiquid assets
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5% tracking error.
Total Fund Value:	£1,244,895,550

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	5.7%	4.8%	0.9%
Fiscal YTD	25.6%	24.3%	1.2%
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	1.1%	2.4%	-1.4%

Rolling Performance*



* Partial returns shown in first quarter

Emerging Market equities have now recovered from the COVID-induced sell off that took place in Q1, with returns for the year now in positive territory on a year-to-date basis. MSCI Emerging Markets – a proxy for broad emerging market equities – returned +1.5% year to date, despite falling by more than 18% in Q1 2020. The fund enjoyed positive returns in both relative and absolute terms in the most recent quarter. Absolute performance over the last 3 months was +5.7% vs benchmark return, proxied by MSCI Emerging Markets, and +4.8% in GBP terms.

Many global economies are yet to see economic activity return to pre-COVID levels, which could present significant challenges, given equity markets have performed so well since Q1. We anticipate ongoing uncertainty in financial markets due to COVID-19 and related lockdowns, with further complications provided by geopolitical risks and increasing influence from retail investors – both these issues are common in emerging markets. In the long run, we believe COVID-19 will create a wide range of opportunities for listed companies in emerging markets. The portfolio is positioned to capitalise on these opportunities.

Key Points

• Stock selection was a significant driver of relative return in the portfolio during last quarter, particularly in Taiwan and China. Taiwan Semiconductor Manufacturing, a global semiconductor major, and Wuliangye Yibin, a brewer of Chinese spirits, are good examples of this, returning +35% & +29%

Brunel Emerging Market Equity

Continued Commentary

respectively over the quarter.

• The fund's positioning with respect to countries continues to be a detractor to relative performance. An underweight position in India detracted from relative performance, given the significant market return of +10%. Overweight positions in Hong Kong and Mexico also detracted from relative performance since these markets significantly lagged the broader benchmark return, returning +1.7% & 0% (in absolute terms) respectively.

• Price Momentum was a significant contributor to relative performance over the quarter. The Sub-Fund currently has an underweight position to momentum stocks as a result of one manager taking many contrarian positions. This added considerable value over the quarter, as higher momentum names underperformed the benchmark by almost 3%.

• Currency volatility was prevalent in emerging markets in Q3. The portfolio has several modest active positions in emerging market currencies relative to benchmark. These do not normally impact relative return but sterling-denominated holdings in select emerging markets, notably Russia, boosted portfolio performance due to a strengthening pound.

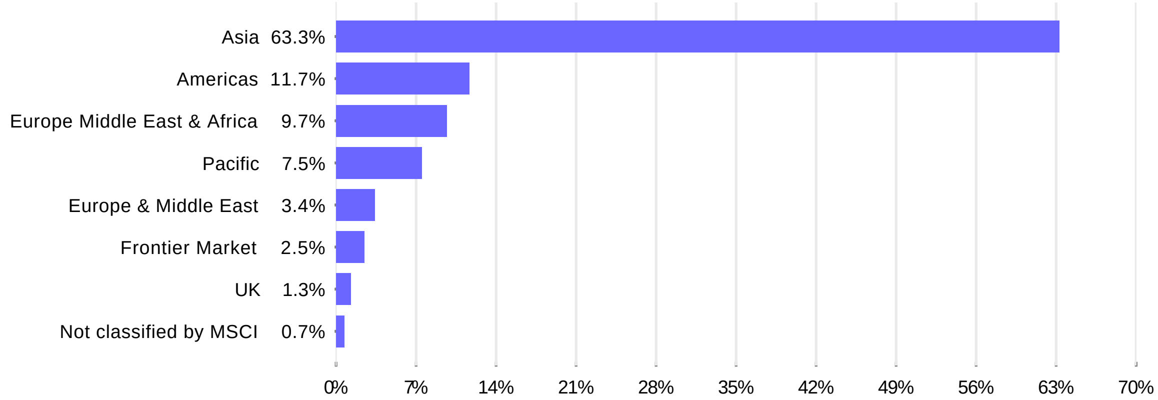
• Performance on a since-inception basis remains behind benchmark. The fund has returned +1.1% since the performance inception date of 7th November 2019, lagging the benchmark by +2.4%. The main driver of this underperformance remains the underweight to China, which detracted significantly in Q1.

Brunel Emerging Market Equity – Region & Sector Exposure

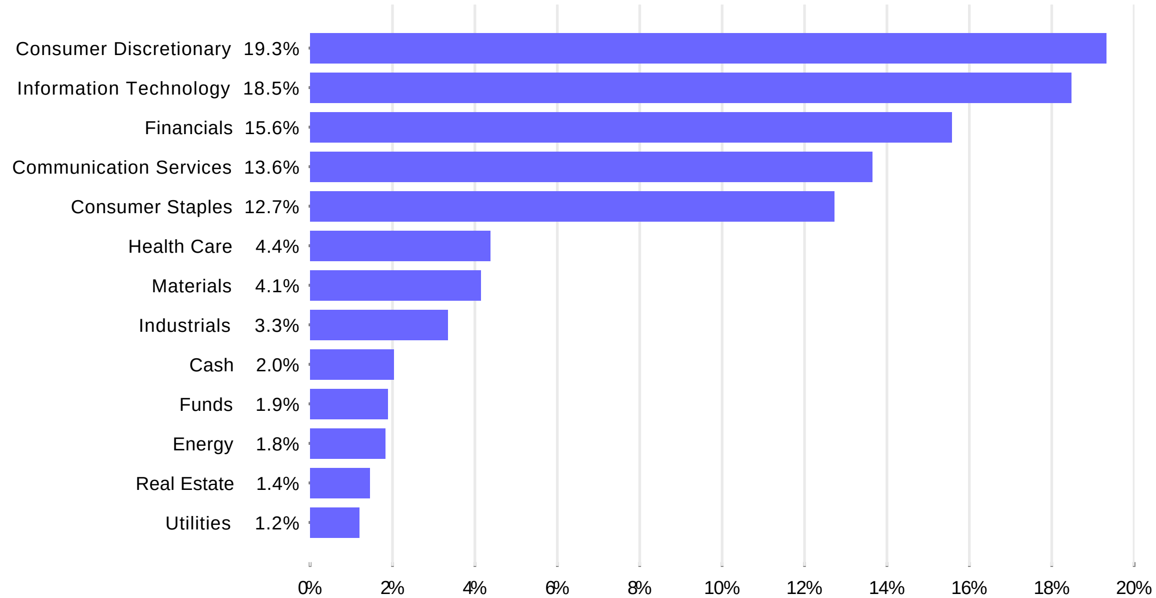
Top 20 Holdings

	Mkt. Val.(GBP)
TAIWAN SEMICONDUCTOR MANUFAC	76,133,427
TENCENT HOLDINGS LTD	75,047,702
ALIBABA GROUP HOLDING-SP ADR	51,936,299
ALIBABA GROUP HOLDING LTD	42,279,641
SAMSUNG ELECTRONICS CO LTD	37,972,292
AIA GROUP LTD	22,024,945
SBERBANK PJSC -SPONSORED ADR	16,798,328
WULIANGYE YIBIN CO LTD-A	14,785,324
HDFC BANK LTD-ADR	14,166,693
ISHARES MSCI INDIA ETF	14,072,957
PING AN INSURANCE GROUP CO-H	12,724,588
CHINA MENGNIU DAIRY CO	11,757,058
NEW ORIENTAL EDUCATIO-SP ADR	11,306,238
NASPERS LTD-N SHS	11,261,865
MEDIATEK INC	11,120,235
SAMSUNG ELECTRONICS-PREF	10,921,553
YANDEX NV-A	10,573,739
CHINA CONSTRUCTION BANK-H	9,648,363
BID CORP LTD	9,627,429
INFOSYS LTD-SP ADR	9,574,845

Regional Exposure



Sector Exposure



Brunel Emerging Market Equity – Responsible Investment

BRUNEL
Pension Partnership

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Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. TAIWAN SEMICONDUCTOR MANUFACTURIN	62.5	23.8
2. CSPC PHARMACEUTICAL GROUP LTD	81.9	28.1
3. MEDIATEK INC	70.9	70.6
4. CHINA MENGNIU DAIRY CO LTD	69.7	18.8
5. SAMSUNG ELECTRONICS CO LTD	59.6	30.4
6. WEICHAI POWER CO LTD	77.8	67.8
7. DELTA ELECTRONICS INC	76.6	27.1
8. AIA GROUP LTD	59.9	15.9
9. HIKMA PHARMACEUTICALS PLC	65.7	15.2
10. ALDAR PROPERTIES PJSC	81.5	67.5

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. TENCENT HOLDINGS LTD	47.6	23.8
2. ALIBABA GROUP HOLDING LTD	54.7	28.1
3. PETROLEO BRASILEIRO SA	36.8	70.6
4. NASPERS LTD	49.4	18.8
5. NETEASE INC	50.1	30.4
6. COGNIZANT TECHNOLOGY SOLUTIONS CORP	44.5	67.8
7. HDFC BANK LTD	54.0	27.1
8. YUM CHINA HOLDINGS INC	51.1	15.9
9. CHINA LIFE INSURANCE CO LTD	51.3	15.2
10. GRUPO MEXICO SAB DE CV	48.3	67.5

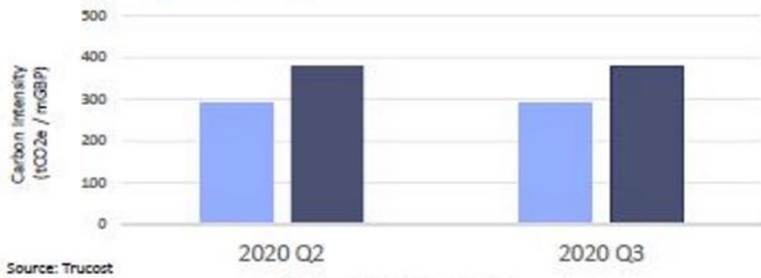
Weighted Average ESG Score	2020 Q2	2020 Q3
Portfolio	57.8	58.3
MSCI EM	56.9	57.5

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)



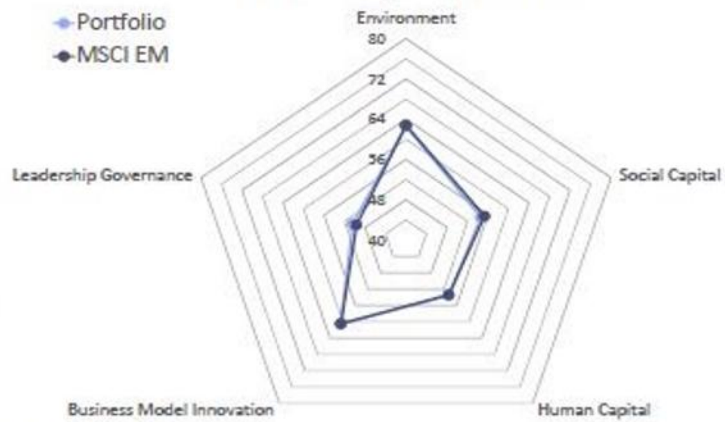
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q2	Q3	Q2	Q3
Portfolio	1.8	3.0	2.7	3.1
MSCI EM	2.7	3.2	7.7	8.0

1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Assessment:

- **Yum China** (Restaurants) switched to catering and cooking kits to weather COVID-19's restaurant impact. A recent debut on the Hong Kong exchange led to a dip - the shares fell 4.8%. Yum plans to continue its expansion, as customers are looking for higher hygiene standards and smaller competitors are closing, leading to falling rents.
- **MediaTek** (Semiconductors) saw 4G chips hit by ongoing supply chain disruptions, however multiple releases of new 5G chips throughout Q2 positioned them to gain from rising demand for 5G connectivity.
- **Netease** (Technology) saw its games sales hit by India's ban on 118 gaming apps with links to China. Major gaming titles from **Alibaba** and **Tencent** were also affected. The app ban comes as tensions flare up between India and China.
- **Weichai Power** (Resource Transformation) launched the world's first engine with a thermal efficiency of 50%. This is a major improvement, as engine efficiency previously stood at a maximum of 46%.

70% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
Carbon intensity of both the benchmark and Portfolio remained largely unchanged this quarter, and the Portfolio continues to be significantly below the benchmark. Exposure to extractives industries also remains much less than the benchmark.

Brunel Global High Alpha Equity

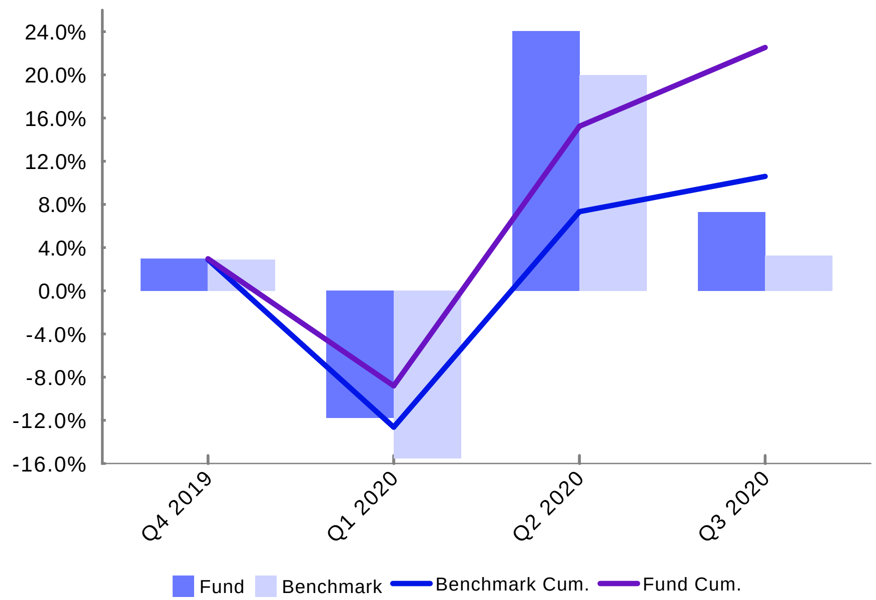
Overview

	Description
Portfolio Objective:	Provide global equity market exposure together with excess returns from accessing leading managers.
Investment Strategy & Key Drivers:	High conviction, concentrated portfolios with strong style/factor biases invested in a unconstrained manner.
Liquidity:	Managed liquidity. Less exposure to more illiquid assets.
Risk/Volatility:	High absolute risk with moderate to high relative risk, around 5-6% tracking error.
Total Fund Value:	£3,235,679,824

Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	7.3%	3.3%	4.0%
Fiscal YTD	33.1%	23.9%	9.2%
1 Year			
3 Years			
5 Years			
10 Years			
Since Inception	20.9%	7.7%	13.2%

Rolling Performance*



* Partial returns shown in first quarter

After the Sub-Fund was launched in Dec 2019, global equity markets experienced the most significant quarterly sell-off since the global financial crisis of 2007/08. This has been followed, in Q2, by the strongest quarterly performance since the crisis, reflecting the impact of Covid-19 on global equity markets. This quarter, developed equity markets (proxied by MSCI World) delivered a more muted 3.3% return consolidating the rebound in Q2. Despite a brief hiatus towards the end of the quarter, returns continued to be driven by a small subset of very large cap companies.

Against this backdrop, the Sub-Fund continued to perform strongly over the quarter, providing a relative outperformance of +4% above the benchmark, thereby improving its outperformance since inception to +13.2%.

Over the reporting period, this outperformance was driven by both sector allocation and stock selection. The largest overweight sector (Consumer Discretionary) and a significant underweight to Energy, contributed most on an allocation basis. However, stock selection was also important, with holdings in both Consumer Discretionary and Healthcare providing strong returns over the quarter.

Dispersion in manager performance continued over the quarter, although not to quite the extreme seen in previous quarters. Again, this is not unexpected given the individual manager style characteristics and the level of dispersion in the market. Baillie Gifford's outperformance continues to be a significant

Continued Commentary

contributor to Sub-Fund returns, reflecting their strategy to identify long-term growth companies.

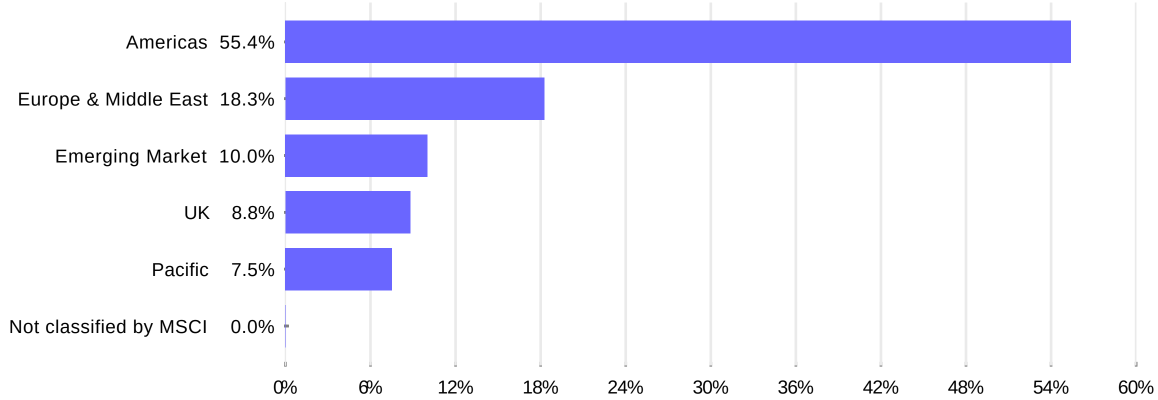
As part of asset allocation changes, two clients traded in the Sub-Fund during the quarter, resulting in a net redemption of c. 2%. The Sub-Fund was rebalanced at the same time, to return manager allocations to target, thereby maintaining the style balance and risk profile within the portfolio.

Brunel Global High Alpha Equity – Region & Sector Exposure

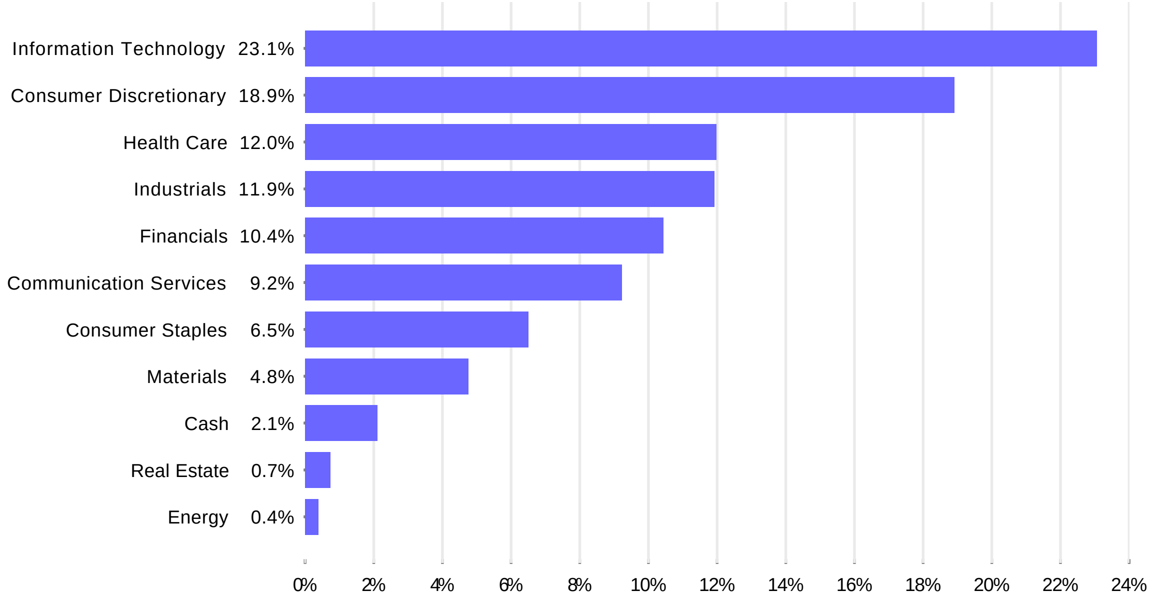
Top 20 Holdings

	Mkt. Val.(GBP)
MICROSOFT CORP	119,602,417
MASTERCARD INC - A	98,962,619
KEYENCE CORP	80,386,734
MOODY'S CORP	72,436,069
ALIBABA GROUP HOLDING-SP ADR	70,244,224
AMAZON.COM INC	66,977,329
ALPHABET INC-CL A	65,787,070
TAIWAN SEMICONDUCTOR-SP ADR	62,049,765
NESTLE SA-REG	61,988,985
TJX COMPANIES INC	52,757,952
FACEBOOK INC-CLASS A	49,957,616
JOHNSON & JOHNSON	48,445,635
TENCENT HOLDINGS LTD	48,232,539
TESLA INC	46,545,297
ASML HOLDING NV	42,077,936
ABBOTT LABORATORIES	36,868,754
VERISK ANALYTICS INC	36,847,693
ROCHE HOLDING AG-GENUSSCHEIN	35,398,368
SHERWIN-WILLIAMS CO/THE	34,208,771
NIDEC CORP	33,757,791

Regional Exposure



Sector Exposure



Brunel Global High Alpha Equity – Responsible Investment

BRUNEL
Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. MASTERCARD INC	63.3	67.7
2. MURATA MANUFACTURING CO LTD	77.6	40.9
3. IQVIA HOLDINGS INC	74.2	27.9
4. APTIV PLC	75.0	25.4
5. NESTLE SA	63.2	64.3
6. SPIRAX-SARCO ENGINEERING PLC	75.4	73.1
7. TAIWAN SEMICONDUCTOR MANUFACTURIN	62.5	72.0
8. ZOETIS INC	67.2	62.2
9. MCCORMICK & CO INC/MD	77.5	41.0
10. GENMAB A/S	66.1	61.6

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. FACEBOOK INC	43.6	35.3
2. ALPHABET INC	49.8	55.2
3. AMAZON.COM INC	50.4	30.5
4. TENCENT HOLDINGS LTD	47.6	23.8
5. AUTOZONE INC	40.0	27.2
6. ASML HOLDING NV	47.5	19.0
7. JOHNSON & JOHNSON	51.4	74.0
8. NIKE INC	46.2	72.8
9. NETFLIX INC	43.3	34.5
10. CREDIT SUISSE GROUP AG	40.4	36.1

Weighted Average ESG Score	2020 Q2	2020 Q3
Portfolio	58.4	58.6
MSCI World	58.4	58.4

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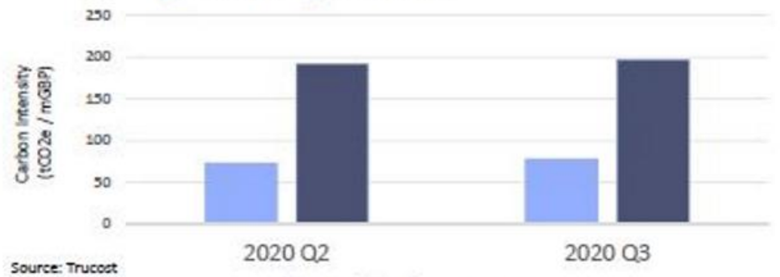
TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

Weighted Average Carbon Intensity (WACI)



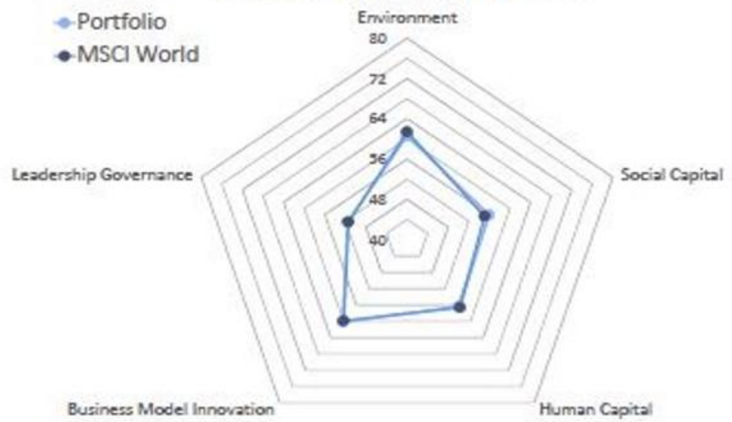
Source: Trucost

Extractive Exposure

	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q2	Q3	Q2	Q3
Portfolio	1.9	1.8	2.5	2.8
MSCI World	3.3	3.3	8.0	7.4

1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Absolute Weighted ESG Scores



TruValue Labs & SASB

Brunel Assessment:

- **Nike** (Apparel & Footwear) retained staff on full pay, closed stores during COVID-19, and donated equipment to hospitals. After the death of George Floyd, Nike committed £40m to support the black community over the next four years and also made Juneteenth (which marks the end of slavery) a paid holiday.
- **Genmab** (Health Care) launched its multiple sclerosis drug, Kesimpta, which has been approved by the US Food and Drug Administration following stage 3 clinical trials.
- **Ivqia Holdings** (Product Quality and Safety) has been awarded COVID-19 vaccine contracts and related lab work in collaboration with AstraZeneca.
- **Johnson & Johnson** (Pharmaceuticals) was subject to civil charges filed by New York State's Department of Financial Services for its role in the opioid crisis. COVID-19 vaccine trials progressed to phase 3. Johnson's launched its Healthy Lives Mission, pledging $800m through 2030 for more sustainable products and a healthier planet.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
The Portfolio continues to have a carbon intensity significantly lower (c.66% less) than its benchmark. Exposure to extractives industries are also below that of the benchmark.

Brunel UK Active Equity

Overview

	Description
Portfolio Objective:	Provide exposure to UK Equities, together with enhanced returns from manager skill.
Investment Strategy & Key Drivers:	Skilled managers will create opportunities to add long term value through stock selection and portfolio construction.
Liquidity:	Managed level of liquidity. Less exposure to more illiquid assets.
Risk/Volatility:	High absolute risk with moderate relative risk, around 4% tracking error.
Total Fund Value:	£1,402,911,062

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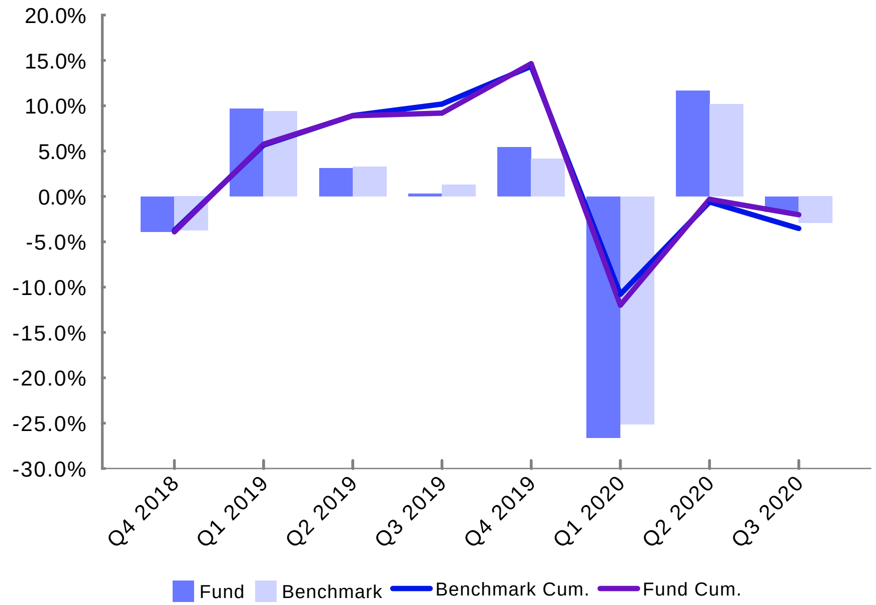
Performance to Quarter End

Ann. Performance	Fund	BM	Excess
3 Month	-1.7%	-2.9%	1.2%
Fiscal YTD	9.8%	7.0%	2.8%
1 Year	-15.1%	-16.6%	1.5%
3 Years			
5 Years			
10 Years			
Since Inception	-4.1%	-4.5%	0.4%

Rolling Performance*



* Partial returns shown in first quarter

The UK stock market continued to experience volatility in the third quarter of 2020 with high levels of uncertainty over the path of Covid-19. We anticipate the UK market environment will continue to be challenging over the coming period, given the uncertainty companies face in dealing with the impacts of the Covid-19 virus, and in adapting to any post-Brexit trade deal.

Over the quarter, the Sub-Fund was subject to a significant client outflow of c.12%, alongside an amendment to the underlying manager allocation. ASI was removed as a manager, with assets previously under their management to be allocated between Invesco and Baillie Gifford. The reallocation is expected to complete early in Q4 2020. As agreed in the product governance review, the Sub-Fund's benchmark was changed from the FTSE All Share Index to the FTSE All Share ex Investment Trust Index. This report displays the FTSE All Share Index as the benchmark index, with comparison to the new benchmark provided below. Future reporting will use the FTSE All Share Index ex Investment Trusts as the benchmark index.

• The Fund provided an absolute return of -1.7% over the three months. Over the quarter, the Sub-Fund outperformed the FTSE All Share Index by 1.2% and the FTSE All Share ex Investment Trust Index by 1.8%.

Brunel UK Active Equity

Continued Commentary

• At composite level, the Fund's outperformance was a result of positive asset allocation and stock selection. An underweight position to the oil and gas sector, which significantly underperformed the market over the period, was particularly beneficial to relative performance.

• Baillie Gifford and Invesco made a positive contribution to relative performance and ASI underperformed the benchmark.

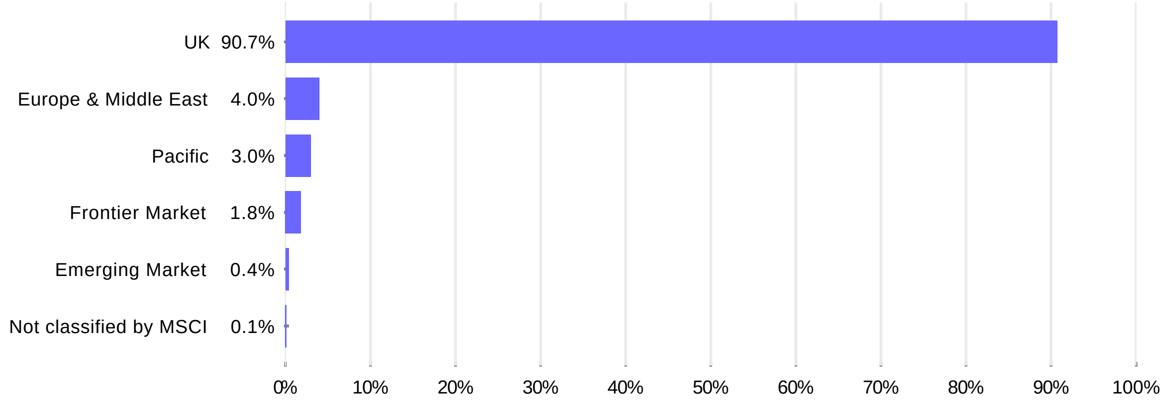
• Since inception, the Sub-Fund has returned -4.1% on an annualised basis, 0.4% p.a. more than the FTSE All Share Index and 1.3% p.a. more than the FTSE All Share Index ex Investment Trusts.

Brunel UK Active Equity – Region & Sector Exposure

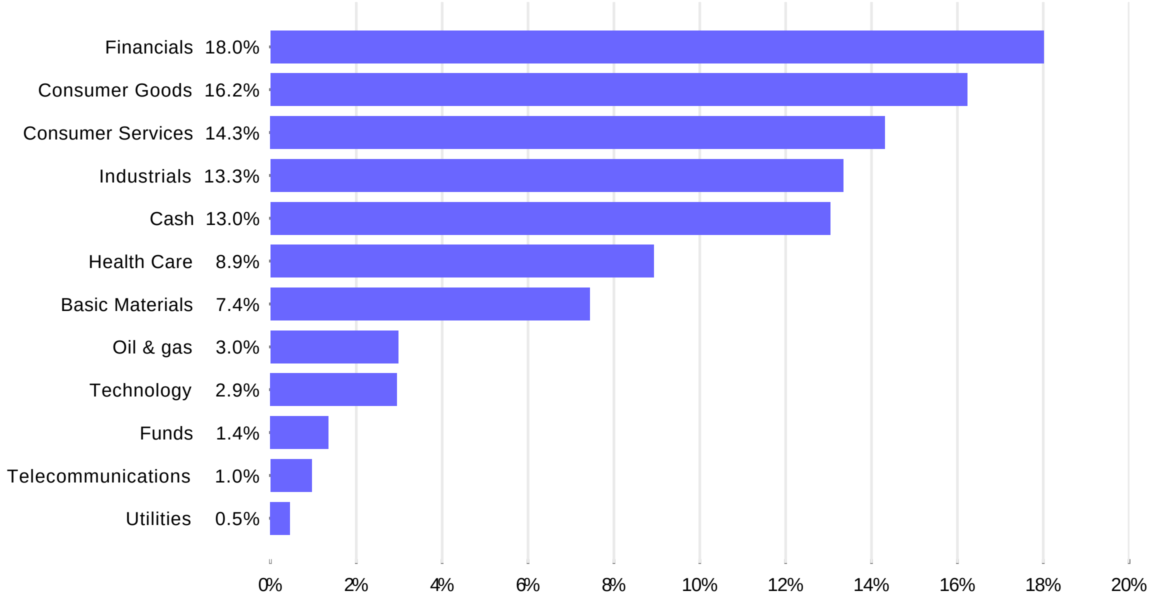
Top 20 Holdings

	Mkt. Val.(GBP)
BRITISH AMERICAN TOBACCO PLC	43,639,913
UNILEVER PLC	42,874,365
RIO TINTO PLC	42,507,383
ASTRAZENECA PLC	37,285,992
BHP GROUP PLC	36,620,989
GLAXOSMITHKLINE PLC	34,769,568
RELX PLC	33,154,427
PRUDENTIAL PLC	30,978,251
DIAGEO PLC	28,342,839
HIKMA PHARMACEUTICALS PLC	22,755,068
RIGHTMOVE PLC	22,727,543
AUTO TRADER GROUP PLC	22,049,612
BUNZL PLC	21,603,182
LEGAL & GENERAL GROUP PLC	19,581,281
HSBC HOLDINGS PLC	17,192,320
ST JAMES'S PLACE PLC	16,745,280
BAILLIE GIFFORD BR SM-C-ACC	15,745,704
FERGUSON PLC	14,586,317
GAMES WORKSHOP GROUP PLC	13,931,723
ULTRA ELECTRONICS HLDGS PLC	13,583,041

Regional Exposure



Sector Exposure



Brunel UK Active Equity – Responsible Investment

BRUNEL Pension Partnership

Top 10 ESG Contributors to Overall Score

	Insight	Momentum
1. BUNZL PLC	80.2	77.6
2. AUTO TRADER GROUP PLC	72.2	18.4
3. RELX PLC	66.1	50.0
4. TATE & LYLE PLC	76.1	42.9
5. HIKMA PHARMACEUTICALS PLC	65.7	74.6
6. DIAGEO PLC	64.4	39.2
7. DUNELM GROUP PLC	74.7	75.3
8. VICTREX PLC	80.5	54.7
9. BAE SYSTEMS PLC	68.1	72.2
10. INFORMA PLC	72.0	25.6

Bottom 10 ESG Detractors to Overall Score

	Insight	Momentum
1. BRITISH AMERICAN TOBACCO PLC	49.7	24.3
2. RIGHTMOVE PLC	50.9	30.3
3. HSBC HOLDINGS PLC	48.4	24.6
4. GLAXOSMITHKLINE PLC	55.1	28.3
5. ROYAL DUTCH SHELL PLC	54.3	55.1
6. HISCOX LTD	35.8	23.8
7. LLOYDS BANKING GROUP PLC	47.6	66.6
8. UNILEVER PLC	57.5	23.2
9. AVIVA PLC	51.0	29.9
10. RECKITT BENCKISER GROUP PLC	49.8	68.7

Weighted Average ESG Score	2020 Q2	2020 Q3
Portfolio	59.2	58.6
FTSE All Share	58.5	58.4

TruValue Labs & SASB

* Position 1 is the top contributor/detractor.

0 50 100

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Source: Trucost

Extractive Exposure

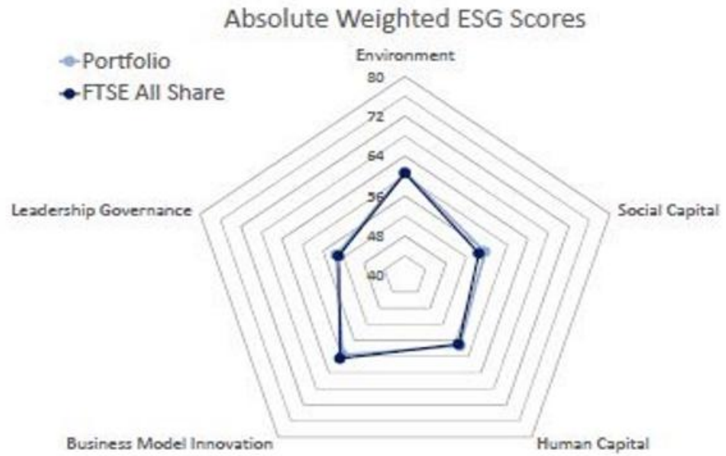
	Total Extractive Exposure[1]		Extractive Industries (VOH)[2]	
	Q2	Q3	Q2	Q3
Portfolio	4.9	3.9	15.3	12.4
FTSE All Share	5.7	5.6	19.5	17.7

1 Extractive revenue exposure as share (%) of total revenue.
2 Value of holdings(VOH)-companies who derive revenues from extractives.
Source: Trucost

Brunel Assessment:

- **Lloyds Banking Group** (Bank) is to cut 865 jobs across insurance, wealth and retail. The job cuts are an attempt to simplify the business, with employees leaving from November 2020.
- **Dunelm** (Consumer Goods) launched an in-store textile recycling scheme in 10 of its UK stores, allowing customers to recycle unwanted fabrics. The scheme illustrates the commitment to sustainability and is in partnership with recycling company First Mile.
- **Unilever** (Consumer Goods) is accused of human rights abuses and a complaint has been taken to the United Nations Working Group on Business and Human Rights. Hundreds of workers were attacked on a Unilever Plantation in Kenya, 2007, during post-election turmoil. Unilever is accused of not offering redress or assistance to victims.
- **Informa** (Media) launched 'Super September', during which six digital expos took place. The initiative aimed to help businesses overcome the limitations of lockdown.

90% of the bottom 10 ESG detractors are covered by engagement or specific voting activities.
Brunel has engaged extensively to improve the carbon intensity of this Portfolio. There was strong commitment from the quantitative manager to manage climate risk in the investment process. The outcome has been to deliver a Portfolio with carbon intensity significantly below its benchmark. **Since inception, carbon intensity has fallen from 210 to below 120 tCO2e/ £m.**



TruValue Labs & SASB

Glossary of Terms

BRUNEL
Pension Partnership

Term	Previously referred as	Meaning
Absolute return		The actual return, as opposed to the return relative to a benchmark.
Allocation		Measures the impact of decisions to allocate assets differently from the benchmark.
Alternative Investment Fund (AIF)		An Alternative Investment Fund such as a hedge fund, private equity, real estate fund and other funds focused on alternative asset classes.
Alternative Investment Fund Managers (AIFM)		A fund manager that is authorised (full scope AIFM) or registered (if they manage AIFs with assets under management below certain thresholds) to manage AIFs such as hedge funds, private equity, real estate funds.
Alternative Investment Fund Managers Directive (AIFMD)		This is an EU law that requires each AIF managed within the scope of the Directive to have a single AIFM responsible for ensuring compliance with the Directive.
Annualised		Figures expressed as applying to one year.
Assets Under Management (AUM)		This measures the total market value of all the financial assets which a financial institution such as a mutual fund, venture capital firm, or brokerage house manages on behalf of its clients and themselves.
Attribution		Identifies the drivers of performance relative to the fund benchmark. The relative return is decomposed into two areas; Allocation and Selection.
Authorised Contractual Scheme (ACS)		An investment vehicle and fund manager, based in the UK, that allows LGPS pension funds or other organisations with money to invest alongside each other - while keeping a clear record of who owns what.
Benchmark Return		Expected return based on market indices as dictated by the fund strategy.
Brunel Board	Brunel Manager Board	Board of executive and non-executive directors, leading the Brunel company.
Brunel		Brunel Pension Partnership - The FCA-authorised investment manager entity that manages the pooled investments.
Brunel Executive Directors **(ED)**		The Executive Directors are responsible for overseeing the delivery of the Brunel objectives.

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Glossary of Terms

Term	Previously referred as	Meaning
Brunel Pension Partnership Limited **(Brunel)**		One of the eight LGPS Pools in England & Wales. A FCA regulated company, wholly owned by the Administering Authorities, and responsible for implementing the asset allocation strategies of the Brunel Funds by investing Fund assets within defined 'portfolios'. In particular, it will research and select the investment funds needed to meet the requirements of the detailed Strategic Asset Allocations. These investment funds will be operated by professional external investment managers. Brunel Pension Partnership [c£30bn: Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, Wiltshire]
Chief Finance Officer **(CFO)**		A corporate officer primarily responsible for managing the financial risks of the corporation. This officer is also responsible for financial planning and record-keeping, as well as financial reporting to higher management. In the Local Authorities this is the S151 officer.
Chief Legal Officer **(CLO)**		The chief lawyer of the legal department, usually in a company or a governmental department who minimizes its legal risks by advising the company's other officers and board members on any major legal and regulatory issues the company confronts, such as litigation risks. In the Local Authorities this is the Monitoring Officer.
Collective Investment Scheme **(CIS)**		This is an investment scheme wherein several individuals come together to pool their money for investing in a particular asset(s) and for sharing the returns arising from that investment as per the agreement reached between them prior to pooling in the money.
Creation, Amendment and Deletion policy **(CAD policy)**		Brunel procedure for creation, amendment and deletion of portfolios
Cross Pool Collaboration Group **(CPCG)**		A collaborative group across the eight UK LGPS pools

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Glossary of Terms

BRUNEL
Pension Partnership

Term	Previously referred as	Meaning
Deloitte		Auditors, appointed to provide internal audit services to Brunel
Duration		The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movement in yields.
Environment, Social and Governance **(ESG)**		A subset of non-financial performance indicators used by investors to evaluate corporate behaviour and to determine the future financial performance of companies.
Full Business Case **(FBC)**		Strategic, financial, economic, commercial and management case.
Finance and Legal Assurance Group **(FLAG)**		Finance and Legal Assurance Group (with membership of each AAs equivalent to Chief Finance Officer (CFO) and Chief Legal Officer (CLO)) will sponsor the changes in the Funds and the arrangements for governance of the Brunel company.
Financial Conduct Authority **(FCA)**		This is a financial regulatory body in the United Kingdom, which operates independently of the UK government and is financed by charging fees to members of the financial services industry.
Freedom Of Information Request **(FOI)**		The Freedom of Information Act (FOIA) gives individuals the right to request access to recorded information held by public sector organisations.
Fund Manager		An organisation that provides investment products
FundRock		FundRock is a leading third party UCITS Management Company, Alternative Investment Fund Manager, Authorised Corporate Director and Authorised Contractual Scheme (ACS) Operator. FundRock serves as Brunel's ACS operator.
Fund Return		The total return achieved by the fund or asset class over the period. The return is obtained using the following equation on a monthly basis: ((capital gain/loss + income) / average balance) * 100
Grant Thornton		Auditors appointed to provide external audit services to Brunel
INALYTICS		An investment transition advisor procured by Brunel to initially advise on the passive equities transition

Glossary of Terms

Term	Previously referred as	Meaning
Institutional Investors Group on Climate Change **(IIGCC)**		The Institutional Investors Group on Climate Change (IIGCC) is a forum for investors to collaborate on climate change. IIGCC's mission is to mobilise capital for the low carbon future by amplifying the investor voice and collaborating with business, policymakers and investors. IIGCC provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change.
Investment Management Agreement **(IMA)**		The contract with a fund manager
Investment Strategy Statement **(ISS)**	Replaces the Statement of Investment Principles	A document that replaces the Statement of Investment Principles under the 2016 LGPS (Management and Investment of Funds) Regulations. Administering Authorities are required to prepare and maintain an ISS documenting how the investment strategy for the fund is determined and implemented, including its approach to pooling.
Know Your Customer **(KYC)**		The process of a business identifying and verifying the identity of its clients. The term is also used to refer to the bank regulation which governs these activities.
Legal & General Investment Management **(LGIM)**		Investment management firm
Local Government Association **(LGA)**		This is an organisation which comprises local authorities in England and Wales. The LGA seeks to promote better local government; it maintains communication between officers in different local authorities to develop best practice. It also represents the interests of local government to national government.
Local Authority Pension Funds Investments **(LAPF)**		A magazine for local authority pension investment specialists.
Local Authority Pension Fund Forum **(LAPFF)**		The collaborative shareholder engagement group for local authority pension funds. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement.
Local Government Pension Scheme **(LGPS)**		This is a nationwide scheme and is a valuable part of the pay and rewardpackage for employees working in local government or working for otheremployers participating in the Scheme and for some councillors.

Glossary of Terms

Term	Previously referred as	Meaning
Local Government Pension Scheme **(LGPS)**		The Scheme is administered locally for participating employers through 99 regional pension funds
LGPS (Management and Investment of Funds) Regulations 2016 (Investment Regulations)	Draft LGPS (Management and Investment of Funds) Regulations 2016	Regulations 2016 (Investment Regulations) that came into effect 1 November 2016.
LGPS Code of Transparency (Transparency Code)		A move toward investment fee transparency and consistency, and part of the government's criteria for pooling investments.
Market volatility		The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.
Markets in Financial Instruments Directive II **(MiFID II)**	MiFID	MiFID is the European Union (EU) legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. MiFID applied in the UK from November 2007, and was revised by MiFID II, which took effect in January 2018. MiFID II is made up of MiFID (2014/65/EU) and the Markets in Financial Instruments Regulation (MiFIR - 600/2014/EU).
Money-weighted rate of return		The rate of return on an investment including the amount and timing of cashflows.
Portfolio	Fund	The grouping of the asset types to be available for funds. For example, Global Equities Core, Hedge funds, UK Gilts, LDI.
Portfolio group		The higher level category of asset types. For example, equities, alternatives, fixed interest.
Relative return		The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on index or Benchmark.
Selection		Measures the impact of performance at asset class or manager level in relation to the overall fund.

Glossary of Terms

Term	Previously referred as	Meaning
Time-weighted rate of return		The rate of return on an investment removing the effect of the amount and timing of cashflows.
Yield (Gross Redemption Yield)		The return expected from a board if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

Brunel Committees and Groups

Full name	Abbreviation	Chair	Purpose
Audit, Risk & Compliance Committee	ARC	Patrick Newberry, NED	To oversee key functions of the Regulated Company, including: - Financial and Annual reporting - Internal controls - Compliance and whistleblowing - External audit function
Brunel Investment Committee	BIC	CIO	Formal meeting of the Brunel Investment Team, covering: - Economic and Markets update - Responsible Investment update - Stakeholder input (from Client Relations Team) - Investment proposals (private and listed markets) - Procedures - Forward look
Brunel Investment Risk Committee	BIRC	CIO	To provide challenge and insight in respect of investment risks and exposures. This will include oversight of portfolio guidelines and monitoring.
Brunel Oversight Board	BOB	Ray Theodolou (Glos)	The Oversight Board has been established by the administering authorities participating in the Brunel Pension Partnership. Acting for the administering authorities in their capacity as shareholders in, and clients of, Brunel, the Oversight Board will have responsibility for ensuring that Brunel delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership.The Oversight Board shall comprise of one individual appointee of each administering authority participating in the Brunel Pension Partnership. In addition to the individuals appointed by each of the administering authorities, two members representing Fund members shall be entitled to attend and contribute to meetings of the Oversight Board.
Brunel Operations Committee	BOC	COO	To review the detailed elements of Brunel's operations, including: - Technology and infrastructure - HR policies

Brunel Committees and Groups

Full name	Abbreviation	Chair	Purpose
Brunel Operations Committee	BOC	COO	- Regulatory change (and compliance with) - Finance - Managing supplier relationships - ICAPP oversight
Brunel Risk and Compliance Committee	BRCC	DoR & GC	Second line review overseeing the Compliance and Risk function
Client Group	CG	Sean Collins	Client Group has been established by the administering authorities participating in the Brunel Pension Partnership. Acting for the administering authorities in their capacity as shareholders in, and clients of, Brunel, the Client Group will provide practical and technical support, guidance and assistance to the Oversight Board in its strategic role of ensuring that Brunel delivers the services required to achieve investment pooling across the 10 LGPS funds comprising the Brunel Pension Partnership.Client Group shall comprise of at least one individual appointee of each administering authority participating in the Brunel Pension Partnership.
The Executive Committee	ExCo	CEO	The core responsibility of ExCo is to oversee delivery of the Brunel objectives. The Executive Committee comprises: - Chief Executive Officer - Chief Investment Officer - Chief Operations Officer - Client Relationship Director
Remuneration Committee	RemCo	Mike Clark, NED	In line with the Shareholders Agreement, to set and monitor remuneration policy including that for senior management remuneration.

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BRUNEL
Pension Partnership

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**20 November 2020**	**AGENDA ITEM NUMBER**
TITLE:	**Task Force on Climate-related Financial Disclosures**	
WARD:	**ALL**	
OPEN		
List of attachments to this report: Appendix 1 – TCFD report by Mercers Appendix 2 – TCFD Core Recommendations checklist		

1 THE ISSUE

1.1 Given the recent DWP consultation on the matter, it is expected that "large" pension funds will be required to provide climate-related financial disclosures in the future. For funds with assets of £5bn or more, it is expected that the reporting period would start from 1 October 2021, with the report required by late 2022. Assuming this is to become law, MHCLG would be expected to make provision for the LGPS broadly in line with DWP regulations.

1.2 The Task Force for Climate-related Financial Disclosures (TCFD) framework is considered best practice and is widely adoptable and applicable to organisations across all sectors and countries. Use of this framework to improve the Fund's disclosure was discussed as part of the Fund's strategic review in 2019/20; it was agreed the Fund would consider adopting the TCFD's recommendations as soon as it was practical.

1.3 Mercers will present on TCFD at the meeting (see Appendix 1).

2 RECOMMENDATION

2.1 **That the Panel notes the intention to adopt the TCFD recommendations for the year ending 31 March 2021.**

3 FINANCIAL IMPLICATIONS

3.1 There is no cost to adopting the recommendations. Some extra advisory costs may be incurred as part of the process.

4 Task Force on Climate-related Financial Disclosures (TCFD)

4.1 The TCFD was commissioned in 2015 by Mark Carney as Chair of the Financial Stability Board. In 2017 the TCFD published its recommendations for improved transparency by companies. Asset managers, asset owners bank and insurance companies with respect to how climate related risks and opportunities are being managed. Disclosure that aligns with the TCFD recommendations currently represents best practice. Currently 1,500 organisations support the TCFD including over 1,340 companies with a market cap of $12.6tn and financial institutions responsible for assets of $150tn.

4.2 The recommendations are based on the financial materiality of climate change. The four elements (see below) are designed to make TCFD-aligned disclosures comparable, but with sufficient flexibility to take specific circumstances of each organisation into account. Appendix 2 sets out the recommendations in more detail as a checklist to indicate how the Fund will comply.

Core Elements of Recommended Climate-related Financial Disclosures

Governance **The organisation's governance around climate-related risks and opportunities**	**Strategy** **The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material**
Risk Management **The processes used by the organisation to identify, assess and manage climate-related risks**	**Metrics and Targets** **The metrics and targets used to assess and manage relevant climate-related risks and opportunities**

5 ADOPTION OF TCFD BY THE FUND

5.1 As long term investors with a focus on responsible investing and transparency, it is imperative that we support, where possible, initiatives that will improve the information available for markets to effectively price climate-related risk in order to improve investment decision making and for policy makers to address market and policy failures.

5.2 Mercers have reviewed our current investment strategy and Responsible Investing Policy and advise that the Fund, given the significant amount of work already undertaken to address climate risk within our investment strategy, is in a position to disclose its activities in line with the recommendations. Early adoption demonstrates the commitment the Fund has to addressing climate risk and capturing opportunities as well as encouraging better disclosure across the industry.

5.3 Brunel Pension Partnership Ltd have adopted the TCFD recommendations for reporting.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Low Carbon Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 EQUALITIES

8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

10.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investments & Risk; 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	

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MERCER

Task Force on Climate-related Financial Disclosures ("TCFD")

Time to consider

Avon Pension Fund

October 2020

Steve Turner, Partner

welcome to brighter

What are climate-related risks and opportunities?

An investment perspective

The Investor Zone

The Climate Zone

2020 | 2050 | 2100

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Risk Factors

Transition

- SPENDING - TECHNOLOGY
- POLICY

Physical Damages

- AVAILABILITY OF NATURAL RESOURCES
- IMPACT OF NATURAL CATASTROPHES

Opportunities from the low carbon transition	Sector performance divergence – energy and utilities most impacted	Physical risks increasingly dominate over longer term	Sudden asset re-pricing risk

Why consider climate risks and opportunities?

A pension fund perspective

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Regulatory climate disclosures proposed timelines
DWP consultation on TCFD

Value of fund assets at scheme year ending after…	First reporting period	First disclosure deadline (in Report and Accounts and on a public website)
1 June 2020 are >=£5bn	Period from 1 October 2021 to scheme year end after that date	Earlier of: • 7 months after scheme year end post 1 October 2021 or by • 31 December 2022
1 June 2021 are >=£1bn	Period from 1 October 2022 to scheme year end after that date	Earlier of: • 7 months after scheme year end post 1 October 2022 or by • 31 December 2023
All other schemes	No requirement at present but DWP will carry out a review in 2024 before determining how and when to extend rollout to smaller pension schemes	

- **In our view, there is a strong likelihood that the broad pensions industry will support the adoption of TCFD for large occupational pension schemes**
- **MHCLG is expected to make provision for the LGPS broadly in line with these regulations. In our view, it would be surprising if similar regulations were not applied to the LGPS, given that TCFD is recognised as best practice**

How to look at climate-related risks and opportunities
TCFD framework

The Taskforce on Climate-related Financial Disclosures (TCFD) recommends a framework for disclosing how climate-related risks and opportunities are measured, monitored and managed by companies, asset managers and asset owners.

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The framework aims to:

- Improve climate-related data quality
- Increase focus on climate change
- Enable more informed decisions
- Provide a consistent framework for comparison

We recommend that the TCFD framework is used to understand, manage and monitor the Fund’s exposure to climate risks and opportunities

TCFD Reporting
Enhancing the Fund's reputation

The Committee is already doing a lot of what is involved with TCFD reporting

Governance
- Review your climate-related investment beliefs.
- Prioritise actions and understand the roles and responsibilities.

Strategy
- Consider climate change scenario analysis on investment and funding strategy.
- Understand the sponsor's exposure to climate risk and how they are adapting.

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Risk Management
- Include climate risk in the scheme's risk register.
- Asset managers: how are they voting/engaging on climate change?
- Annual review of Mercer manager ESG ratings for your managers.
- Consider sustainable asset allocations.
- Consider low carbon or ESG indices.

Metrics and targets
- Carry out carbon foot-printing on equity and corporate bond portfolios.
- Consider non-emissions based metrics, such as green revenues.
- Consider setting target(s) to manage climate-related risks.

Formally adopting TCFD reporting could further enhance the Fund's governance and reputation

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Appendix 2

TCFD – Core recommendations and checklist

Governance

Disclose the organisation's governance around climate-related risks and opportunities

a	Describe the committee's oversight climate-related risks and opportunities	*ISS and RI policy*
b	Describe management's role in assessing and managing climate-related risks and opportunities	*Internally and what is delegated externally*

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material

a	Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	*From Mercer strategic review papers*
b	Describe the impact of climate related risks and opportunities on the organisation's business, strategy and financial planning	*Asset allocation decisions,*
c	Describe the resilience of the organisation's strategy, taking into account different climate -related scenarios including a 2^0C or lower scenario	*Mercer scenario modelling*

Risk Management

Disclose how the organisation identifies, assesses and manages climate-related risks

a	Describe the organisation's processes for identifying and assessing climate-related risks	*Engagement policy, collaborative initiatives*
b	Describe the organisation's processes for managing climate-related risks	*Engagement and stewardship activities*
c	Describe how the processes for identifying, assessing and managing climate-related risks are integrated into the organisations overall risk management	*Risk register and portfolio monitoring*

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

a	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	*Carbon exposure reports*
b	Disclose the Scope 1, Scope 2 and if appropriate Scope 3 greenhouse gas emissions, and the related risks	*Results from latest report*
c	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	*Specific strategic targets*

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Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND INVESTMENT PANEL**	
MEETING DATE:	**20 November 2020**	**AGENDA ITEM NUMBER**
TITLE:	**Forward Agenda**	
WARD:	**ALL**	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Nil		

1 THE ISSUE

1.1 This report sets out the forward agenda for the Panel to end 1Q21. It is provisional as the Panel will respond to issues as they arise and as work is delegated from the Committee.

2 RECOMMENDATION

2.1 **That the Panel notes the Panel forward agenda.**

3 FINANCIAL IMPLICATIONS

3.1 There are no financial implications arising from this report.

4 FORWARD AGENDA

4.1 The provisional agenda is as follows:

Date	Proposed agenda
20 November 2020	Strategic • Dynamic Hedging strategy proposal Monitoring • Update on pooling • Investment performance • Risk Management Framework
26 February 2021	Strategic • Review of equity portfolio • Brunel presentation - Overview of Private Market Portfolios • Decision whether to top up allocation to Private Market portfolios in 2021 (current cycle) • Dynamic Hedging strategy counterparty proposal (if required Monitoring • Update on pooling • Investment performance • Risk Management Framework
28 May 2021	Strategic • Review of equity portfolio Monitoring • Update on pooling • Investment performance • Risk Management Framework
10 September 2021	Tbc
19 November 2021	Tbc

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